

COCA COLA FEMSA SAB DE CV
Form 20-F
June 17, 2011

As filed with the Securities and Exchange Commission on June 17, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2010
Commission file number 1-12260**

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

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

United Mexican States
(Jurisdiction of incorporation or organization)

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

José Castro

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(Name, telephone, e-mail and/or facsimile number and
address of company contact person)

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

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

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

None

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

None

The number of outstanding shares of each class of capital or common stock as of December 31, 2010 was:

992,078,519 Series A Shares, without par value

583,545,678 Series D Shares, without par value
270,906,004 Series L Shares, without par value

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

Yes_ No

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

Yes_ No

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

Yes_ No

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

Yes_ No

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

Large Accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP IFRS Other

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

Item 17_ Item 18

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

Yes_ No

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INTRODUCTION

References

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

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

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

References to *Coca-Cola* trademark beverages in this annual report refer to products described in “Item 4. Information on the Company—The Company—Our Products.”

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. 12.3825 to US\$ 1.00, the exchange rate for Mexican pesos on December 30, 2010, the last day in 2010 for which information is available, according to the U.S. Federal Reserve Board. On June 10, 2011, this exchange rate was Ps. 11.8668 to US\$ 1.00. See “Item 3. Key Information—Exchange Rate Information” for information regarding exchange rates since January 1, 2006.

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

Sources

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

Forward-Looking Information

This annual report contains words such as “believe,” “expect,” “anticipate” and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with The Coca-Cola Company, movements in the prices of raw materials, competition, significant

developments in economic or political conditions in Latin America or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Item 1. Not Applicable

Item 2. Not Applicable

Item 3. Key Information

SELECTED CONSOLIDATED FINANCIAL DATA

This annual report includes (under Item 18) our audited consolidated balance sheets as of December 31, 2010 and 2009 and the related consolidated statements of income and changes in shareholders' equity and cash flows for the years ended December 31, 2010, 2009 and 2008. Our consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards, which we sometimes refer to as Mexican FRS. Mexican Financial Reporting Standards differ in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Notes 26 and 27 to our consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, together with reconciliation to U.S. GAAP of net income and shareholders' equity.

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

Pursuant to Mexican Financial Reporting Standards, the information presented in this annual report presents financial information for 2010, 2009 and 2008 in nominal terms that has been presented in Mexican pesos, taking into account local inflation of each inflationary economic environment and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each country categorized as an inflationary economic environment. For each non-inflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for shareholders' equity and the average exchange rate for the income statement. Our financial information for 2007 and 2006 is expressed in constant pesos as of December 31, 2007.

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

- In inflationary economic environments, the figures are restated for inflation based on the local consumer price index.
- In inflationary economic environments, gains and losses in purchasing power from holding monetary liabilities or assets are recognized in the “Comprehensive financing result” line in the income statement.
- Financial statements for 2010, 2009 and 2008 are stated in nominal Mexican pesos.
- Beginning in 2008, as a result of discontinuing inflationary accounting for subsidiaries that operate in non-inflationary economic environments, the financial statements are no longer considered to be presented in a reporting currency that comprehensively includes the effects of price level changes; therefore, the inflationary effects of inflationary economic environments arising in 2008, 2009 and 2010 result in a difference to be reconciled for U.S. GAAP purposes. See Notes 26 and 27 to our consolidated financial statements.

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

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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 audited 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 from operations at or for any future date or period. See Note 4 to our consolidated financial statements for our significant accounting policies.

	Year Ended December 31,					
	2010⁽¹⁾	2010	2009⁽²⁾	2008⁽³⁾	2007	2006
	(2010, 2009 and 2008 in millions of Mexican pesos or millions of U.S. dollars; 2007 and 2006 in millions of constant Mexican pesos as of December 31, 2007, except share and per share data)					
Income Statement Data:						
Mexican FRS						
Total revenues	US\$ 8,355	Ps. 103,456	Ps. 102,767	Ps. 82,976	Ps. 69,251	Ps. 64,046
Cost of goods sold	4,485	55,534	54,952	43,895	35,876	33,740
Gross profit	3,870	47,922	47,815	39,081	33,375	30,306
Operating expenses	2,491	30,843	31,980	25,386	21,889	20,013
Income from operations	1,379	17,079	15,835	13,695	11,486	10,293
Comprehensive financing result	99	1,228	1,373	3,552	345	1,195
Other expenses, net	104	1,292	1,449	1,831	702	1,046
Income taxes	344	4,260	4,043	2,486	3,336	2,555
Consolidated net income	832	10,299	8,970	5,826	7,103	5,497
Controlling interest net income	791	9,800	8,523	5,598	6,908	5,292
Non-controlling interest net income	41	499	446	228	195	205
Net controlling income per share ⁽⁴⁾	0.43	5.31	4.62	3.03	3.74	2.86
U.S. GAAP						
Total revenues.	US\$ 8,328	Ps. 103,122	Ps. 100,393	Ps. 81,099	Ps. 69,131	Ps. 59,940
Cost of goods sold	4,518	55,944	54,335	43,490	36,118	31,426
Gross profit	3,810	47,178	46,058	37,609	33,013	28,514
Operating expenses	2,566	31,770	31,843	25,567	22,279	19,773
Income from operations	1,244	15,408	14,215	12,042	10,734	8,741
Comprehensive financing result	102	1,260	1,752	3,917	278	1,142
Other expenses, net	13	163	226	440	241	(124)
Income taxes	331	4,097	3,525	1,987	3,272	2,420
Consolidated net income ⁽⁵⁾	816	10,105	8,853	5,802	6,953	5,280
Controlling interest net income	776	9,608	8,407	5,571	6,765	5,104
Non-controlling interest net income	40	497	446	231	188	176
Net controlling income per share ⁽⁴⁾	0.42	5.20	4.55	3.02	3.66	2.76

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Cash, cash equivalents and marketable securities	US\$ 1,012	Ps. 12,534	Ps. 9,740	Ps. 6,192	Ps. 7,542	Ps. 4,641
Other current assets	1,123	13,902	13,899	11,800	9,919	7,301
Property, plant and equipment, net	2,592	32,100	31,242	28,236	23,709	23,362
Intangible assets, net	4,136	51,213	50,898	47,453	42,458	41,064
Other assets, net	348	4,312	4,882	4,277	3,550	3,497
Total assets.	9,211	114,061	110,661	97,958	87,178	80,427
Short-term bank loans and notes payable.	148	1,840	5,427	6,119	4,814	3,419
Other current liabilities	1,277	15,806	18,021	15,214	11,496	9,904
Long-term bank loans and notes payable	1,253	15,511	10,498	12,455	14,102	16,799
Other long-term liabilities	567	7,023	8,243	6,554	5,985	5,850
Total liabilities	3,245	40,180	42,189	40,342	36,397	35,972
Shareholders' equity	5,966	73,881	68,472	57,616	50,781	44,454
Capital stock	252	3,116	3,116	3,116	3,116	3,116
Non-controlling interest in consolidated subsidiaries	210	2,602	2,296	1,703	1,641	1,475
Controlling interest	5,756	71,279	66,176	55,913	49,140	42,979

U.S. GAAP

Cash, cash equivalents and marketable securities	US\$ 980	Ps. 12,140	Ps. 9,740	Ps. 6,192	Ps. 7,542	Ps. 5,074
Other current assets	1,218	15,081	14,936	12,493	10,523	6,868
Property, plant and equipment, net	2,430	32,258	29,835	28,045	23,044	21,258
Intangible assets, net	3,961	50,697	49,336	46,580	42,458	41,088
Other assets, net	388	4,837	4,582	4,663	5,015	4,266
Total assets.	8,977	115,013	108,429	97,973	88,582	78,554
Short-term bank loans and notes payable	148	1,840	5,427	6,119	4,814	3,289
Other current liabilities	1,277	15,816	18,033	15,226	11,430	9,329
Long-term bank loans and notes payable	1,253	15,511	10,497	12,455	14,102	16,789
Other long-term liabilities	579	8,378	8,435	7,705	7,111	6,117
Total liabilities	3,257	41,545	42,392	41,505	37,457	35,524
Equity	5,720	73,468	66,037	56,468	51,125	43,030
Non-controlling interest in consolidated subsidiaries	213	2,633	2,333	1,707	1,653	1,260
Controlling interest	5,507	70,835	63,704	54,761	49,472	41,770
Capital stock	252	3,116	3,116	3,116	3,116	3,116

Other Data:**Mexican FRS**

Depreciation ⁽⁵⁾	US\$ 269	Ps. 3,333	Ps. 3,472	Ps. 3,022	Ps. 2,586	Ps. 2,625
Capital expenditures ⁽⁶⁾	604	7,478	6,282	4,802	3,682	2,863

U.S. GAAP

Depreciation⁽⁵⁾

US\$ 273 Ps. 3,381 Ps. 3,696 Ps. 3,151 Ps. 2,717 Ps. 2,483

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 12.3825 to US\$ 1.00 solely for the convenience of the reader.

(2) Includes results from the operations of Brisa from February 2009. See “Item 4—Information on the Company—The Company—Corporate History.”

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- (3) Includes results from the operations of REMIL from June 1, 2008. See “Item 4—Information on the Company—The Company—Corporate History.”
- (4) Computed on the basis of 1,846.5 million shares outstanding.
- (5) Includes depreciation of coolers reclassified to property, plant and equipment during 2009.
- (6) Expressed in historical Mexican pesos.

DIVIDENDS AND DIVIDEND POLICY

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

Fiscal Year with Respect to which Dividend was Declared	Date Dividend Paid	Mexican Pesos per Share (Nominal)	U.S. Dollars per Share⁽¹⁾
2006	May 15, 2007	0.438	0.041
2007	May 6, 2008	0.512	0.049
2008	April 13, 2009	0.727	0.054
2009	April 26, 2010	1.410	0.116
2010	April 27, 2011	2.360	0.204

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

The declaration, amount and payment of dividends are subject to approval by a simple majority of the shareholders up to an amount equivalent to 20% of the preceding years' retained earnings and by a majority of shareholders of each of Series A and Series D Shares voting together as a single class above 20% of the preceding years' retained earnings, generally upon the recommendation of our board of directors, and will depend upon our operating results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Accordingly, our historical dividend payments are not necessarily indicative of future dividends.

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

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

Period	Exchange Rate			End of Period
	High	Low	Average ⁽¹⁾	
2006	11.46	10.43	10.90	10.80
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.21	13.83
2009	15.41	12.63	13.58	13.06
2010	13.19	12.16	12.64	12.38

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

(1) Average month-end rates.

	Exchange Rate		
	High	Low	End of Period
2009:			
First Quarter	Ps. 15.41	Ps. 13.33	Ps. 14.21
Second Quarter	13.89	12.88	13.17
Third Quarter	13.80	12.82	13.48
Fourth Quarter	13.67	12.63	13.06
2010:			
First Quarter	Ps. 13.19	Ps. 12.30	Ps. 12.30
Second Quarter	13.14	12.16	12.83
Third Quarter	13.17	12.49	12.63
Fourth Quarter	12.61	12.21	12.38
December	Ps. 12.47	Ps. 12.33	Ps. 12.38
2011:			
First Quarter	Ps. 12.25	Ps. 11.92	Ps. 11.92
January	12.25	12.04	12.15
February	12.18	11.97	12.11
March	12.11	11.92	11.92
April	11.85	11.52	11.52
May	11.77	11.51	11.58

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

On June 10, 2011, the exchange rate was Ps. 11.8668 to US\$ 1.00, according to the U.S. Federal Reserve Board.

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

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 from operations and financial condition.

Approximately 99% of our sales volume in 2010 was derived from sales of *Coca-Cola* trademark beverages. We produce, market and distribute *Coca-Cola* trademark beverages through standard bottler agreements in certain territories in Mexico and Latin America, which we refer to as “our territories.” See “Item 4. Information on the Company—The Company—Our Territories.” Through its rights under our bottler agreements and as a large shareholder, The Coca-Cola Company has the right to participate in the process for making important decisions related to our business.

The Coca-Cola Company may unilaterally set the price for its concentrate. In addition, under our bottler agreements, we are prohibited from bottling or distributing any other beverages without The Coca-Cola Company’s authorization or consent, and we may not transfer control of the bottler rights of any of our territories without consent of The Coca-Cola Company.

The Coca-Cola Company also makes significant contributions to our marketing expenses, although it is not required to contribute a particular amount. Accordingly, The Coca-Cola Company may discontinue or reduce such contributions at any time.

We depend on The Coca-Cola Company to renew our bottler agreements. In Mexico, we have four bottler agreements; the agreements for two territories expire in June 2013 and the agreements for the other two territories expire in May 2015. Our bottler agreements with The Coca-Cola Company will expire for our territories in other countries as follows: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014. All of our bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. See “Item 4. Information on the Company—Bottler Agreements.” Termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial conditions, results from operations and prospects.

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 interests of our remaining shareholders.

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. Currently, The Coca-Cola Company indirectly owns 31.6% of our outstanding capital stock, representing 37.0% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint four of our 18 directors and the vote of at least two of them is required to approve certain actions by our board of directors. FEMSA indirectly owns 53.7% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is entitled to appoint 11 of our 18 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, 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, or only FEMSA in certain circumstances, 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 interests of our remaining shareholders.

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

We engage in transactions with subsidiaries of both The Coca-Cola Company and FEMSA. Our main transactions with FEMSA include supply agreements under which we purchase certain supplies and equipment, a service agreement under which a FEMSA subsidiary transports finished products from our production facilities to distribution facilities in Mexico, sales of finished products to Oxxo, a Mexican convenience store chain owned by FEMSA, a service agreement under which a FEMSA subsidiary provides administrative services to us, and sales and distribution agreements with Cervejarias Kaiser Brasil S.A., or Cervejarias Kaiser, a Brazilian subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V., a brewer with operations in Mexico and Brazil, formerly known as FEMSA Cerveza, S.A. de C.V., or FEMSA Cerveza, currently a wholly-owned subsidiary of the Heineken Group. On April 30, 2010, the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group closed. We have agreed with Cervejarias Kaiser to continue to distribute and sell the *Kaiser* beer portfolio in our Brazilian territories through the 20-year term, consistent with the arrangements in place since 2006. See “Item 4. Information on the Company—The Company—Product and Packaging Mix—Mercosur (Brazil and Argentina).” In addition, we have entered into cooperative marketing arrangements with The Coca-Cola Company. We are a party to a number of bottler agreements with The Coca-Cola Company. We also have agreed to jointly develop still beverages and waters in our territories with The Coca-Cola Company and have entered into agreements to jointly acquire companies with The Coca-Cola Company. See “Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions.”

Our transactions with related parties 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 in the territories in which we operate is highly competitive. We face competition from other bottlers of sparkling beverages such as *Pepsi* products, and from producers of low cost beverages or “B brands.” We also compete in different beverage categories, other than sparkling beverages, such as water, juice-based beverages, teas and sport drinks. Although competitive conditions are different in each of our territories, we compete principally in terms of price, packaging, consumer sales promotions, customer service and product innovation. See “Item 4. Information on the Company—The Company—Competition.” 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.

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

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

Water shortages or any failure to maintain existing concessions could adversely affect our business.

Water is an essential component of all of our products. We obtain water from various sources in our territories, including springs, wells, rivers and municipal and state water companies pursuant to either contracts to obtain water or pursuant to concessions granted by governments in our various territories.

We obtain the vast majority of the water used in our production pursuant to concessions to exploit wells, which are generally granted based on studies of the existing and projected groundwater supply. Our existing water concessions or contracts to obtain water may be terminated by governmental authorities under certain circumstances and their renewal depends on receiving necessary authorizations from local and/or federal water authorities. See “Item 4. Information on the Company—Regulation—Water Supply Law.” In some of our other territories, our existing water supply may not be sufficient to meet our future production needs, and the available water supply may be adversely affected by shortages or changes in governmental regulations and environmental changes.

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

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

Our most significant raw materials are (1) concentrate, which we acquire from affiliates of The Coca-Cola Company, (2) packaging materials and (3) sweeteners. Prices for sparkling beverages concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages in Brazil and Mexico. These increases were fully implemented in Brazil in 2008 and in Mexico in 2009. However, we may experience further increases in the future. 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 each country in which we operate, while the prices of certain materials, including those used in the bottling of our products, mainly resin, ingots to make plastic bottles, finished plastic bottles, aluminum cans and high fructose corn syrup, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currency of the countries in which we operate, as was the case in 2008 and 2009. See “Item 4. Information on the Company—The Company—Raw Materials.”

Our most significant packaging raw material costs arise from the purchase of resin and plastic ingots to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are tied to crude oil prices and global resin supply. The average prices that we paid for resin and plastic ingots in U.S. dollars decreased significantly in 2010 and in 2009; however, we cannot provide any assurance that prices will remain at these levels, and they may also increase in future periods. During 2009-2010 international sugar prices were volatile due to various factors, including shifting demands, availability and climate issues affecting production and distribution. 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. Average sweetener prices paid during 2010 were higher as compared to 2009 in all of the countries in which we operate. See “Item 4. Information on the Company—The Company—Raw Materials.” We cannot assure you that our raw material prices will not further increase in the future. Increases in the prices of raw materials would increase our cost of goods sold and adversely affect our financial performance.

Taxes could adversely affect our business.

The countries in which we operate may adopt new tax laws or modify existing law to increase taxes applicable to our business. For example, in Mexico, a general tax reform became effective on January 1, 2010, pursuant to which, as applicable to us, there is a temporary increase in the income tax rate from 28% to 30% from 2010 through 2012. This increase will be followed by a reduction to 29% for the year 2013 and a further reduction in 2014 to return to the previous rate of 28%. In addition, the value added tax (VAT) rate increased in 2010 from 15% to 16%. This increase had an impact on our results from operations due to the reduction in disposable income of consumers.

In Panama there was an increase in a certain consumer tax, effective as of April 1, 2010, affecting syrups, powders and concentrate. Some of these materials are used for the production of our sparkling beverages. These taxes increased from 6% to 10%.

Our products are also subject to certain taxes in many of the countries in which we operate. Certain countries in Central America, Brazil and Argentina also impose taxes on sparkling beverages. See “Item 4. Information on the Company—Regulation—Taxation of Sparkling Beverages.” We cannot assure you that any governmental authority in any country where we operate will not impose new taxes or increase taxes on our products in the future. 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 from operations.

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. Regulation can also affect our ability to set prices for our products. See “Item 4. Information of the Company—Regulation.” The adoption of new laws or regulations or a stricter interpretation or enforcement thereof 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 from operations. In particular, environmental standards are becoming more stringent in several of the countries in which we operate, and we are in the process of complying with these standards, although we cannot assure you that we will be able to meet any timelines for compliance established by the relevant regulatory authorities. See “Item 4. Information of the Company—Regulation—Environmental Matters.” Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results from operations or financial condition.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. We are currently subject to price controls in Argentina. The imposition of these restrictions or voluntary price restraints in other territories may have an adverse effect on our results from operations and financial position. See “Item 4. Information on the Company—Regulation—Price Controls.” We cannot assure you that governmental authorities in any country where we operate will not impose statutory price controls or that we will need to implement voluntary price restraints in the future.

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

Our operations have from time to time been subject to investigations and proceedings by antitrust authorities and litigation relating to alleged anticompetitive practices. We have also been subject to investigations and proceedings on environmental and labor matters. We cannot assure you that these investigations and proceedings could not have an adverse effect on our results from operations or financial condition. See “Item 8. Financial Information—Legal Proceedings.”

Weather conditions may adversely affect our results from operations.

Lower temperatures and higher rainfall may negatively impact consumer patterns, which may result in lower per capita consumption of our beverage offerings. Additionally, adverse weather conditions may affect road infrastructure in the territories in which we operate and limit our ability to sell and distribute our products, thus affecting our results from operations. As was the case in Mexico, Colombia, Venezuela and Central America in 2010, adverse weather conditions affected our sales in certain regions of these territories.

Risks Related to the Series L Shares and the ADSs***Holders of our Series L Shares have limited voting rights.***

Holders of our Series L Shares are entitled to vote only in certain circumstances. In general terms they may elect three of our 18 directors and are only entitled to vote on specific matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares on the Mexican Stock Exchange or any other foreign stock exchange, and those matters for which the *Ley de Mercado de Valores* (Mexican Securities Market Law) expressly allow them to vote. As a result, Series L shareholders will not be able to influence our business or operations. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders” and “Item 10. Additional Information—Bylaws—Voting Rights, Transfer Restrictions and Certain Minority Rights.”

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

Our shares are traded on the New York Stock Exchange (NYSE) in the form of ADSs. Holders of our shares in the form of ADSs may not receive notice of shareholders meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner.

The protections afforded to non-controlling interest shareholders in Mexico are different from those afforded to minority shareholders in the United States and investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

Under the Mexican Securities Market Law, the protections afforded to non-controlling interest shareholders are different from, and may be less than, those afforded to minority shareholders in the United States as follows: (1) the Mexican Securities Market Law does not provide a remedy for shareholders relating to violations of fiduciary duties by our directors and officers, (2) there is no procedure for class actions as such actions are conducted in the United States and (3) there are different procedural requirements for bringing shareholder lawsuits for the benefit of companies. Therefore, it may be more difficult for non-controlling interest shareholders to enforce their rights against us, our directors or our controlling interest shareholders than it would be for minority shareholders of a United States company.

In addition, we are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States, and all or a substantial portion of our assets and the assets of our directors, officers and controlling persons are located outside the United States. As a result, it may not be possible 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.

The enforceability against our directors, officers and controlling persons in Mexico in actions for enforcement of judgments of U.S. courts, and liabilities predicated solely upon the U.S. federal securities laws will be subject to certain requirements provided for in the Mexican Federal Civil Procedure Code and any applicable treaties. Some of the requirements may include personal service of process and that the judgments of U.S. courts are not against Mexican public policy. The Mexican Securities Market Law, which is considered Mexican public policy, provides that in the event of actions derived from any breach of the duty of care and the duty of loyalty against our directors and officers, any remedy would be exclusively for the benefit of the company. Therefore, investors would not be directly entitled to any remedies under such actions.

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

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

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

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

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

Risks Related to Mexico and the Other Countries in Which We Operate***Adverse economic conditions in Mexico may adversely affect our financial condition and results from operations.***

We are a Mexican corporation, and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2010, 37.5% of our total revenues were attributable to Mexico. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect the Mexican economy. Prolonged periods of weak economic conditions in Mexico may have, and in the past have had, a negative effect on our company and a material adverse effect on our results from operations and financial condition.

Our business may be significantly affected by the general condition of the Mexican economy, or by the rate of inflation and 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. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk.” 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 18% of our total debt as of December 31, 2010, and have an adverse effect on our financial position. See “Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”

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

Depreciation of the Mexican peso relative to the U.S. dollar increases the cost to us of some 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 results from operations and financial position and shareholders’ equity. Significant fluctuation of the Mexican peso relative to the U.S. dollar occurred in the past, for example, at the end of 2008 and into 2009. According to the U.S. Federal Reserve Board, the exchange rate registered a low of Ps. 9.92 to US\$ 1.00 at August 5, 2008, and a high of Ps. 15.41 to US\$ 1.00 at March 2, 2009 in that period. At December 30, 2010, the exchange rate was Ps. 12.38 to U.S.\$ 1.00. At June 10, 2011, the exchange rate was Ps. 11.8668 to US\$ 1.00. See “Item 3. Key Information—Exchange Rate Information” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Rate Risk.”

We generally do not hedge our exposure to the U.S. dollar with respect to the Mexican peso and other currencies, other than with respect to our U.S. dollar-denominated debt obligations, and recently, the purchase of certain raw materials. A severe depreciation of the Mexican peso may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated indebtedness or obligations in other currencies. While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into

U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future. Currency fluctuations may have an adverse effect on our results from operations, financial condition and cash flows in future periods.

Political events in Mexico could adversely affect our operations.

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

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

In addition to Mexico, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. Total revenues and income from our combined non-Mexican operations increased as a percentage of our consolidated total revenues and income from operations from 42.8% and 29.5%, respectively, in 2005 to 62.5% and 61.3%, respectively, in 2010. As a consequence, our results have been increasingly affected by the economic and political conditions in the countries, other than Mexico, where we conduct operations.

Consumer demand, preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the other countries in which we operate. These conditions vary by country and may not be correlated to conditions in our Mexican operations. In Venezuela we continue to face exchange rate risk as well as scarcity of and restrictions to import raw materials. Deterioration in economic and political conditions in any of these countries would have an adverse effect on our financial position and results from operations.

Depreciation of the local currencies of the countries in which we operate against the U.S. dollar may increase our operating costs. We have also operated under exchange controls in Venezuela since 2003 that limit our ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price paid for raw materials and services purchased in local currency. In January 2010, the Venezuelan government announced a devaluation of its official exchange rate and the establishment of a multiple exchange rate system of: (1) 2.60 bolivars to US\$ 1.00 for high priority categories (2) 4.30 bolivars to US\$ 1.00 for non-priority categories and (3) the recognition of the existence of other exchange rates that the government shall determine. In January 2011, the Venezuelan government announced that its only official exchange rate effective as of January 1, 2011 is 4.30 bolivars to US\$ 1.00, although the Venezuelan government continues to recognize the existence of other exchange rates that the government shall determine. This devaluation has had an impact on our financial results and results from operations as a result of the exchange rate as applied to our U.S. dollar-denominated raw material costs. Future currency devaluation or the imposition of exchange controls in any of the countries in which we have operations would have an adverse effect on our financial position and results from operations.

We cannot assure you that political or social developments in any of the countries in which we have operations, over which we have no control, will not have a corresponding adverse effect on the economic situation and on our business, financial condition or results from operations.

Item 4. Information on the Company**THE COMPANY****Overview**

We are the largest publicly listed bottler of *Coca-Cola* trademark beverages in the world, calculated by sales volume in 2010. We operate in territories in the following countries:

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

Our company was organized on October 30, 1991 as a *sociedad anónima de capital variable* (a variable capital stock corporation) under the laws of Mexico with a duration of 99 years. On December 5, 2006, as required by amendments to the Mexican Securities Market Law, we became a *sociedad anónima bursátil de capital variable* (a variable capital listed stock corporation). Our legal name is Coca-Cola FEMSA, S.A.B. de C.V. Our principal executive offices are located at Guillermo González Camarena No. 600, Col. Centro de Ciudad Santa Fé, Delegación Álvaro Obregón, México, D.F., 01210, México. Our telephone number at this location is (52-55) 5081-5100. Our website is www.coca-colafemsa.com.

The following is an overview of our operations by reporting segment in 2010.

Operations by Reporting Segment—Overview
Year Ended December 31, 2010⁽¹⁾

	Total Revenues	Percentage of Total Revenues	Income from Operations	Percentage of Income from Operations
Mexico	38,782	37.5%	6,605	38.7%
Latincentro ⁽²⁾	17,281	16.7%	3,022	17.7%
Venezuela	14,033	13.6%	2,444	14.3%
Mercosur ⁽³⁾	33,360	32.2%	5,008	29.3%

Consolidated	103,456	100.0%	17,079	100.0%
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- (1) Expressed in millions of Mexican pesos, except for percentages.
- (2) Includes Guatemala, Nicaragua, Costa Rica, Panama and Colombia.
- (3) Includes Brazil and Argentina.

Corporate History

We are a subsidiary of FEMSA, which also owns Oxxo, the largest Mexican convenience store chain, and which formerly owned FEMSA Cerveza, now Cuauhtémoc Moctezuma Holding, S.A. de C.V., a brewer with operations in Mexico and Brazil, currently a wholly-owned subsidiary of the Heineken Group. On April 30, 2010, the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group closed.

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

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

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

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

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

In November 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican company owned directly or indirectly by us and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. Subsequently, we and The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle, through transactions completed during

2008. We hold an interest of approximately 20% in each of the Mexican joint business and the Brazilian joint businesses. Jugos del Valle sells fruit juice-based beverages and fruit derivatives.

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

In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to us by The Coca-Cola Company pursuant to our bottler agreements. The December 2007 transaction was valued at US\$ 48 million and the May 2008 transaction was valued at US\$ 16 million. We believe that both of these transactions were conducted on an arm's length basis. Revenues from the sale of proprietary brands in which we have a significant continuing involvement are deferred and amortized against the related costs of future sales over the estimated sales period.

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In July 2008, we acquired the *Agua De Los Angeles* jug water business in the Valley of Mexico (Mexico City and surrounding areas) from Grupo Embotellador CIMSA, S.A. de C.V., one of the *Coca-Cola* bottling franchises in Mexico, for a purchase price of US\$ 18.3 million. The trademarks remain with The Coca-Cola Company. We subsequently merged *Agua De Los Angeles* into our jug water business under the *Ciel* brand.

In February 2009, we acquired with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, a subsidiary of SABMiller. We acquired the production assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. We and The Coca-Cola Company equally shared in paying the purchase price of US\$ 92 million. Following a transition period, in June 2009, we started to sell and distribute the *Brisa* portfolio of products in Colombia.

In May 2009, we entered into an agreement to develop the *Crystal* trademark water products in Brazil jointly with The Coca-Cola Company.

In August 2010, we acquired from The Coca-Cola Company along with other Brazilian *Coca-Cola* bottlers the business operations of the *Matte Leao* tea brand. We currently have a 13.84% indirect interest in the *Matte Leao* business in Brazil.

On March 28, 2011, we acquired together with The Coca-Cola Company, Grupo Estrella Azul (also known as Grupo Industrias Lacteas), a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. We will continue to develop this business jointly with The Coca-Cola Company.

As of May 31, 2011, FEMSA indirectly owned Series A Shares equal to 53.7% of our capital stock (63.0% of our capital stock with full voting rights). As of May 31, 2011, The Coca-Cola Company indirectly owned Series D Shares equal to 31.6% of the capital stock of our company (37.0% 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 operate with a large geographic footprint in Latin America and have established divisional headquarters in the following three regions:

- Mexico with headquarters in Mexico City;
- Latincentro (covering territories in Guatemala, Nicaragua, Costa Rica, Panama, Colombia and Venezuela) with headquarters in San José, Costa Rica; and
- Mercosur (covering territories in Brazil and Argentina) with headquarters in São Paulo, Brazil.

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One of our goals is to maximize growth and profitability to create value for our shareholders. Our efforts to achieve this goal are based on: (1) transforming our commercial models to focus on our customers' value potential and using a value-based segmentation approach to capture the industry's value potential, (2) implementing multi-segmentation strategies in our major markets to target distinct market clusters divided by consumption occasion, competitive intensity and socioeconomic levels; (3) implementing well-planned product, packaging and pricing strategies through different distribution channels; (4) driving product innovation along our different product categories and (5) achieving the full operating potential of our commercial models and processes to drive operational efficiencies throughout our company. To achieve these goals, we intend to continue to focus our efforts on, among other initiatives, the following:

- working with The Coca-Cola Company to develop a business model to continue exploring and participating in new lines of beverages, extending existing product lines and effectively advertising and marketing our products;
- developing and expanding our still beverage portfolio through innovation, strategic acquisitions and by entering into agreements to jointly acquire companies with The Coca-Cola Company;
- expanding our bottled water strategy, in conjunction with The Coca-Cola Company through innovation and selective acquisitions to maximize profitability across our market territories;
- strengthening our selling capabilities and go-to-market strategies, including pre-sale, conventional selling and hybrid routes, in order to get closer to our clients and help them satisfy the beverage needs of consumers;
- implementing selective packaging strategies designed to increase consumer demand for our products and to build a strong returnable base for the *Coca-Cola* brand;
- replicating our best practices throughout the 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;
- committing to building a multi-cultural collaborative team, from top to bottom; and
- broadening our geographic footprint through organic growth and strategic acquisitions.

We seek to increase per capita consumption of our products in the territories in which we operate. To that end, our marketing teams continuously develop sales strategies tailored to the different characteristics of our various territories and distribution 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 categories, products and new presentations. See “—Product and Packaging Mix.” In addition, because we view our relationship with The Coca-Cola Company as integral to our business, we use market information systems and strategies developed with The Coca-Cola Company to improve our business and marketing strategies. See “—Description of Property, Plant and Equipment.”

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

We focus on management quality as a key element of our growth strategy 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 to provide a forum for exchanging experiences, know-how and talent among an increasing number of multinational executives from our new and existing territories.

Sustainable development is an important pillar of our Company's strategy. We continually develop programs that ensure the creation of social and economic value by fostering the quality of life of our employees, promoting a culture of health and well-being, supporting our surrounding communities and minimizing our operations' environmental impact.

Our Territories

The following map shows our territories, giving estimates in each case of the population to which we offer products, the number of retailers of our beverages and the per capita consumption of our sparkling beverages as of December 31, 2010:

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

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We produce, market and distribute *Coca-Cola* trademark beverages, and brands licensed from FEMSA through 2010. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters, and still beverages (including juice drinks, teas and isotonic). In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. See “—Corporate History.” The following table sets forth our main brands as of December 31, 2010:

<i>Colas:</i>	<u>Mexico</u>	<u>Latincentro</u> ⁽¹⁾	<u>Venezuela</u>	<u>Mercosur</u> ⁽²⁾
<i>Coca-Cola</i>	a	a	a	a
<i>Coca-Cola Light</i>	a	a	a	a
<i>Coca-Cola Zero</i>	a	a	a	a
<i>Flavored sparkling beverages:</i>	<u>Mexico</u>	<u>Latincentro</u> ⁽¹⁾	<u>Venezuela</u>	<u>Mercosur</u> ⁽²⁾
<i>Aquarius Fresh</i>				a
<i>Chinotto</i>			a	
<i>Crush</i>		a		a
<i>Fanta</i>	a	a		a
<i>Fresca</i>	a	a		
<i>Frescolita</i>		a	a	
<i>Hit</i>			a	
<i>Kuat</i>				a
<i>Lift</i>	a	a		
<i>Mundet</i> ⁽³⁾	a			
<i>Quatro</i>		a		a
<i>Simba</i>				a
<i>Sprite</i>	a	a		a
<i>Water:</i>	<u>Mexico</u>	<u>Latincentro</u> ⁽¹⁾	<u>Venezuela</u>	<u>Mercosur</u> ⁽²⁾
<i>Alpina</i>		a		
<i>Brisa</i>		a		
<i>Ciel</i>	a			
<i>Crystal</i>				a
<i>Kin</i>				a
<i>Manantial</i>		a		
<i>Nevada</i>			a	
<i>Other Categories:</i>	<u>Mexico</u>	<u>Latincentro</u> ⁽¹⁾	<u>Venezuela</u>	<u>Mercosur</u> ⁽²⁾
<i>Aquarius</i> ⁽⁴⁾				a
<i>Cepita</i>				a
<i>Hi-C</i> ⁽⁵⁾		a		

<i>Jugos del Valle</i> ⁽⁵⁾	a	a		a
<i>Nestea</i>	a	a	a	
<i>Powerade</i> ⁽⁶⁾	a	a	a	a
<i>Matte Leao</i> ⁽⁷⁾				a

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

(2) Includes Brazil and Argentina.

(3) Brand sold in Mexico by FEMSA to The Coca-Cola Company in September 2010 through The Coca-Cola Company's acquisition of 100% of the equity interest of Promotora de Marcas Nacionales, S.A. de C.V. We remain the licensee of the *Mundet* trademark under license agreements with Promotora de Marcas Nacionales, S.A. de C.V. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions."

(4) Flavored water. In Brazil, also flavored sparkling beverage.

(5) Juice-based beverage. Includes *ValleFrut* in Mexico and *Fresh* in Colombia.

(6) Isotonic.

(7) Ready to drink tea

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 soda fountains, refers to the volume of syrup, powders and concentrate that is required to produce 192 ounces of finished beverage product. The following table illustrates our historical sales volume for each of our territories.

	Sales Volume		
	Year Ended December 31,		
	2010	2009	2008
	(millions of unit cases)		
Mexico	1,242.3	1,227.2	1,149.0
Latincentro			
Central America ⁽¹⁾	137.0	135.8	132.6
Colombia ⁽²⁾	244.3	232.2	197.9
Venezuela	211.0	225.2	206.7
Mercosur			
Brazil ⁽³⁾	475.6	424.1	370.6
Argentina	189.3	184.1	186.0
Combined Volume	2,499.5	2,428.6	2,242.8

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

(2) As of June 1, 2009, includes sales from the Brisa bottled water business.

(3) Excludes beer sales volume. As of June 1, 2008, includes sales from REMIL. As of the first quarter of 2010, we began to distribute certain ready to drink products under the *Matte Leao* brand.

Product and Packaging Mix

Out of the more than 100 brands and line extensions of beverages that we sell and distribute, our most important brand, *Coca-Cola*, together with its line extensions, *Coca-Cola Light* and *Coca-Cola Zero*, accounted for 61.7% of total sales volume in 2010. Our next largest brands, *Ciel* (a water brand from Mexico), *Fanta* (and its line extensions), *Sprite* (and its line extensions) and *ValleFrut* (and its line extensions), accounted for 9.9%, 5.8%, 2.6% and 2.2%, respectively, of total sales volume in 2010. We use the term line extensions to refer to the different flavors in which we offer our brands. We produce, market and distribute *Coca-Cola* trademark beverages in each of our territories in containers authorized by The Coca Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles made of polyethylene terephthalate, which we refer to as PET.

We use the term presentation to refer to the packaging unit in which we sell our products. Presentation sizes for our *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of our

products excluding water, we consider a multiple serving size as equal to, or larger than, 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. We offer both returnable and non-returnable presentations, which allow us to offer portfolio alternatives based on convenience and affordability to implement revenue management strategies and to target specific distribution channels and population segments in our territories. In addition, we sell some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. We also sell bottled water products in bulk sizes, which refer to presentations equal to or larger than 5 liters, which have a much lower average price per unit case than our other beverage products.

The characteristics of our territories are very diverse. Central Mexico and our territories in Argentina are densely populated and have a large number of competing sparkling beverages brands as compared to the rest of our territories. Our territories in Brazil are densely populated but have lower per capita consumption of sparkling beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of sparkling beverages. In Venezuela, we face operational disruptions from time to time, which may have an effect on our volumes sold, and consequently, may result in lower per capita consumption.

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The following discussion analyzes our product and packaging mix by reporting segment. The volume data presented is for the years 2010, 2009 and 2008.

Mexico. Our product portfolio consists of *Coca-Cola* trademark beverages. In 2008, as part of our efforts to strengthen our multi-category beverage portfolio, we incorporated the *Jugos del Valle* line of juice based beverages. Total beverage per capita consumption of our products in our Mexican territories in 2010 was 598 eight-ounce servings.

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

	Year Ended December 31,		
	2010	2009	2008
Total Sales Volume	(millions of unit cases)		
Total	1,242.3	1,227.2	1,149.0
% Growth	1.2%	6.8%	3.5%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	74.1%	73.4%	75.4%
Water ⁽¹⁾	20.6	21.5	21.6
Still beverages	5.3	5.1	3.0
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volumes.

In 2010, our most popular sparkling beverage presentations were the 2.5-liter returnable plastic bottle, the 0.6-liter non returnable plastic bottle (the 20-ounce bottle that is also popular in the United States) and the 3.0-liter non-returnable plastic bottle, which together accounted for 54.3% of total sparkling beverage sales volume in Mexico. Multiple serving presentations represented 67.5% of total sparkling beverages sales volume in Mexico in 2010, a 3.2% increase compared to 2009. Our strategy is to foster consumption in single serving presentations while maintaining multiple serving volumes. In 2010, our sparkling beverages increased as a percentage of our total sales volume from 73.4% in 2009 to 74.1% in 2010, mainly due to a decrease of the bulk water business and the strong preference of our consumers for the *Coca-Cola* brand.

Total sales volume reached 1,242.3 million unit cases in 2010, an increase of 1.2% compared to 1,227.2 million unit cases in 2009. Sparkling beverages sales volume increased 2.3% as compared to 2009. The sparkling beverage category and the still beverage category accounted for total incremental volumes during the year.

Latincentro (excluding Venezuela). Our total sales volume in Latincentro consist predominantly of *Coca-Cola* trademark beverages. Per capita consumption of our beverage products in Colombia and Central America was 127 and 171 eight-ounce servings, respectively, in 2010.

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

	2010	Year Ended December 31, 2009	2008
Total Sales Volume		(millions of unit cases)	
Total	381.3	368.0	330.5
% Growth	3.6%	11.3%	1.4%
Unit Case Volume Mix by Category		(in percentages)	
Sparkling beverages	76.9%	79.3%	87.9%
Water ⁽¹⁾	15.3	13.0	7.7
Still beverages	7.8	7.7	4.4
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volume.

In 2010, multiple serving presentations, as a percentage of total sparkling beverage sales volume, represented 56.3% in Central America and 58.7% in Colombia. In 2008, as part of our efforts to strengthen our multi-category beverage portfolio, we incorporated the *Jugos del Valle* line of juice-based beverages. The acquisition of Brisa in 2009 helped us to become leader, based on sales volume, in the water market in Colombia.

Total sales volume was 381.3 million unit cases in 2010, increasing 3.6% compared to 368.0 million in 2009. Water sales, including bulk water, represented approximately 80% of total incremental volume, mainly driven by the integration of the Brisa bottled water business in Colombia. Sparkling beverages, driven by the *Coca-Cola* brand and still beverages, mainly driven by the *Jugos del Valle* line of products and *Nestea*, represented the balance.

Venezuela. Our product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Per capita consumption of our beverages in Venezuela during 2010 was 175 eight-ounce servings.

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

	Year Ended December 31,		
	2010	2009	2008
Total Sales Volume	(millions of unit cases)		
Total	211.0	225.2	206.7

% Growth

(6.3%)

9.0%

(1.1%)

Unit Case Volume Mix by Category

(in percentages)

Sparkling beverages

91.2%

91.7%

91.3%

Water⁽¹⁾

5.4

5.0

5.8

Still beverages

3.4

3.3

2.9

Total

100.0%

100.0%

100.0%

(1) Includes bulk water volume.

We have implemented a product portfolio rationalization strategy that allows us to minimize the impact of certain operating disruptions that have been recurrent in the last several years. During 2010, we faced a difficult economic environment that prevented us from growing sales volume for our products, and our sparkling beverage volume decreased by 6.8%.

In 2010, multiple serving presentations represented 77.6% of total sparkling beverages sales volume in Venezuela. Total sales volume was 211.0 million unit cases in 2010, a decrease of 6.3% compared to 225.2 million in 2009.

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Mercosur (Brazil and Argentina). Our product portfolio in Mercosur consists mainly of *Coca-Cola* trademark beverages and the *Kaiser* beer brand in Brazil, which we sell and distribute. In 2009, as part of our efforts to strengthen our multi-category beverage portfolio, we incorporated the *Jugos del Valle* line of juice based beverages in Brazil. In 2010, we incorporated ready to drink beverages under the *Matte Leao* brand in Brazil. Per capita consumption of our beverages in Brazil and Argentina was 259 and 374 eight-ounce servings, respectively, in 2010. The following table highlights historical total sales volume and sales volume mix in Mercosur, not including beer:

	Year Ended December 31,		
	2010	2009	2008
Total Sales Volume	(millions of unit cases)		
Total	664.9	608.2	556.6
% Growth	9.3%	9.3%	17.1%
Unit Case Volume Mix by Category	(in percentages)		
Sparkling beverages	90.8%	92.0%	93.3%
Water ⁽¹⁾	4.2	4.1	4.2
Still beverages	5.0	3.9	2.5
Total	100.0%	100.0%	100.0%

- (1) Includes bulk water volume.

In 2008, in our continued effort to develop the still beverage category in Argentina, we launched *Aquarius*, a flavored water. During 2010, as part of our efforts to foster sparkling beverage per capita consumption in Brazil, we re-launched a 2.0-liter returnable plastic bottle for the *Coca-Cola* brand and introduced two single-serve 0.25-liter presentations. These presentations accounted for close to 50% of incremental volumes in Brazil.

Total sales volume was 664.9 million unit cases in 2010, an increase of 9.3% compared to 608.2 million in 2009. Growth in sparkling beverages mainly driven by sales of the *Coca-Cola* brand in both Brazil and Argentina, accounted for close to 80% of the growth during the year. Growth in still beverages, mainly driven by the *Jugos del Valle* line of products in Brazil and *Aquarius* flavored water in Argentina, represented more than 15% of incremental volumes. In 2010, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 28.5% in Argentina and 14.9% in Brazil. In 2010, multiple serving presentations represented 71.1% and 84.6% of total sparkling beverages sales volume in Brazil and Argentina, respectively.

We sell and distribute the *Kaiser* brands of beer in our territories in Brazil. In January 2006, FEMSA Cerveza acquired a controlling stake in Cervejarias Kaiser. Since that time, we have distributed the *Kaiser* beer portfolio in our Brazilian territories, consistent with the arrangements between us and Cervejarias Kaiser in place prior to 2004. Beginning in the second quarter of 2005, we ceased including beer that we distribute in Brazil in our reported sales volumes. On April 30, 2010, the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group closed. We have agreed with Cervejarias Kaiser to continue to distribute and sell the *Kaiser* beer portfolio in our Brazilian territories through the 20-year term, consistent with the arrangement in place since 2006.

Seasonality

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

Marketing

Our Company, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and retailer support programs to target the particular preferences of our consumers. Our consolidated marketing expenses in 2010, net of contributions by The Coca-Cola Company, were Ps. 3,979 million. The Coca-Cola Company contributed an additional Ps. 2,386 million in 2010, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, we have collected customer and consumer information that allow us to tailor our marketing strategies to target different types of customers located in each of our territories and to meet the specific needs of the various markets we serve.

Retailer Support Programs. Support programs include providing retailers with point-of-sale display materials and consumer sales promotions, such as contests, sweepstakes and the giveaway of product samples.

Coolers. Cooler distribution among retailers is important for the visibility and consumption of our products and to ensure that they are sold at the proper temperature.

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

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

Multi-Segmentation. We have been implementing a multi-segmentation strategy in the majority of our markets. This strategy consists of the implementation of different product/price/package portfolios by market cluster or group. These clusters are defined based on consumption occasion, competitive intensity and socio-economic levels, rather than solely on the types of distribution channels.

Client Value Management. We have been transforming our commercial models to focus on our customers' value potential using a value-based segmentation approach to capture the industry's potential. We have started the rollout of this new model in our Mexico, Brazil, Colombia and Central America operations.

We believe that the implementation of these strategies described above also enables us to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows us to be more efficient in the way we go to market and invest our marketing resources in those segments that could provide a higher return. Our marketing, segmentation and distribution 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 throughout our territories.

Product Sales and Distribution

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

Product Distribution Summary

as of December 31, 2010

	<u>Mexico</u>	<u>Latincentro</u> ⁽¹⁾	<u>Venezuela</u>	<u>Mercosur</u> ⁽²⁾
Distribution centers	83	57	32	32
Retailers ⁽³⁾	621,053	474,387	211,568	269,349

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

(2) Includes Brazil and Argentina.

(3) Estimated.

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

We use several sales and distribution models depending on market, geographic conditions and the customer's profile: (1) the pre-sale system, which separates the sales and delivery functions, permitting trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing both sales and distribution efficiency, (2) the conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck, (3) a hybrid distribution system, where the same truck carries product available for immediate sale and product previously ordered through the pre-sale system, (4) the telemarketing system, which could be combined with pre-sales visits and (5) sales through third-party wholesalers of our products.

As part of the pre-sale system, sales personnel also provides merchandising services during retailer visits, which we believe enhance the shopper experience at the point of sale. We believe that an adequate number of service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system for our products.

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 electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of our territories, we retain third parties to transport our finished products from the bottling plants to the distribution centers.

Mexico. We contract with a subsidiary of FEMSA for the transportation of finished products to our distribution centers from our Mexican production facilities. See "Item 7. Major Shareholders and Related Party

Transactions—Related Party Transactions.” From the distribution centers, we then distribute our finished products to retailers through our own fleet of trucks.

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

Brazil. In Brazil, we sold 21.4% of our total sales volume through supermarkets in 2010. Also in Brazil, the delivery of our finished products to customers is completed by a third party, while we maintain control over the selling function. In designated zones in Brazil, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers.

Territories other than Mexico and Brazil. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. In most of our territories, an important part of our total sales volume is sold through small retailers, with low supermarket penetration.

Competition

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

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

Mexico. Our principal competitors in Mexico are bottlers of *Pepsi* products, whose territories overlap but are not co-extensive with our own. In central Mexico we compete with a subsidiary of PepsiCo, Pepsi Beverage Company, the largest bottler of *Pepsi* products globally, and Grupo Embotelladores Unidos, S.A.B. de C.V., the *Pepsi* bottler in central and southeast Mexico. Our main competition in the juice category in Mexico is Grupo Jumex. In the water category, *Bonafont*, a water brand owned by Groupe Danone, is our main competition. In addition, we compete with Cadbury Schweppes in sparkling beverages and with other national and regional brands in our Mexican territories, as well as low-price producers, such as Big Cola and Consorcio AGA, S.A. de C.V., that offer various presentations of sparkling and still beverages.

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

In the countries that comprise our Central America region, our main competitors are *Pepsi* and *Big Cola* bottlers. In Guatemala and Nicaragua, we compete with a joint venture between AmBev and The Central American Bottler Corporation. In Costa Rica, our principal competitor is Florida Bebidas S.A., subsidiary of Florida Ice and Farm Co. S.A. In Panama, our main competitor is Cervecería Nacional, S.A. We also face competition from low-price producers offering multiple serving size presentations in some Central American countries.

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 *Big Cola* in part of the country.

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

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

Raw Materials

Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase in some of our territories for all *Coca-Cola* trademark beverages concentrate from companies designated by The Coca-Cola Company and artificial sweeteners from companies authorized by The Coca-Cola Company. Concentrate prices for sparkling beverages are determined as a percentage of the weighted average retail price in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company.

In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages in Brazil and Mexico. These increases were fully implemented in Brazil in 2008 and in Mexico in 2009. As part of the cooperation framework that we reached with The Coca-Cola Company at the end of 2006, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase for marketing support of our sparkling and still beverages portfolio. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—Cooperation Framework with The Coca-Cola Company.”

In addition to concentrate, we purchase sweeteners, carbon dioxide and other raw materials, resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, closures and fountain containers, as well as other packaging materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of our beverages. 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, including affiliates of FEMSA. Prices for packaging materials and high fructose corn syrup historically have been determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Our most significant packaging raw material costs arise from the purchase of resin, plastic ingots to make plastic bottles and finished plastic bottles, which we obtain from international and local producers. The prices of these materials are tied to crude oil prices and global resin supply. In recent years we have experienced volatility in the prices we pay for these materials. Across our territories, our average price for resin in U.S. dollars increased in 2010 as compared to 2009.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or high fructose corn syrup as sweeteners in our products. Sugar prices in all of the countries in which we operate, other than Brazil, are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices for sugar in certain countries. During 2010, international sugar prices experienced significant volatility.

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 Graham Packaging México, S.A. de C.V., known as Graham, which is the exclusive supplier of returnable plastic bottles to The Coca-Cola Company and its bottlers in Mexico. We also mainly purchase resin from Arteva Specialties, S. de R.L. de C.V., M. & G. Polímeros México S.A. de C.V. and DAK Resinas Americas Mexico S.A. de C.V., which ALPLA México S.A. de C.V., known as ALPLA, and Envases Innovativos de México S.A. de C.V. manufacture into non-returnable plastic bottles for us.

We purchase all of our cans from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which we hold a 5.0% equity interest. We mainly purchase our glass bottles from Compañía Vidriera, S.A. de C.V., known as VITRO, and Silices de Veracruz, S.A. de C.V., known as SIVESA, a wholly-owned subsidiary of FEMSA Cerveza, now Cuauhtémoc Moctezuma Holding, S.A. de C.V., currently a wholly-owned subsidiary of the Heineken Group.

We purchase sugar from, among other suppliers, Beta San Miguel, S.A. de C.V., a sugar cane producer in which we currently hold a 2.6% equity interest. We purchase high fructose corn syrup from CPIIngredientes, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Imported sugar is subject to import duties, the amount of which is set by the Mexican government. As a result, sugar prices in Mexico are in excess of international market prices for sugar, and in 2010, were 73% higher in Mexico. In 2010, sugar prices increased compared to 2009.

Latincentro (excluding Venezuela). In Colombia, we use sugar as a sweetener in most of our products, which we buy from several domestic sources. We purchase plastic bottles from Amcor and Tapón Corona de Colombia S.A. We purchase all our glass bottles from Peldar O-I and cans from Crown, both suppliers in which Grupo Ardila Lulle, owners of our competitor Postobón, owns an equity interest. Glass bottles and cans are available only from these local sources.

In Central America, the majority of our raw materials such as glass and plastic bottles are purchased from several local suppliers. We purchase all of our cans from PROMESA. Sugar is available from suppliers that represent several local producers. Local sugar prices, in the countries that comprise the region, have increased mainly due to volatility in international prices. In Costa Rica, we acquire plastic non-returnable bottles from ALPLA C.R. S.A., and in Nicaragua we acquire such plastic bottles from ALPLA Nicaragua, S.A.

Venezuela. We use sugar as a sweetener in most of our products, which we purchase mainly from the local market. Since 2003, from time to time, we have experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. Sugar supply was affected in 2010 due to (1) shortages in local sugar cane production, (2) quotas imposed by the government to sugar suppliers that limit the quantity of sugar that can be delivered to the food and beverages industry and (3) a production decrease by certain sugar mills. We cannot assure you that we will be able to meet our sugar requirements in the long term if sugar supply conditions do not improve. We buy glass bottles from one local supplier, Productos de Vidrio, S.A., but there are alternative suppliers authorized by The Coca-Cola Company. We acquire most of our plastic non-returnable bottles from ALPLA de Venezuela, S.A. and all of our aluminum cans from a local producer, Dominguez Continental, C.A.

Under current regulations promulgated by the Venezuelan authorities, our ability to import some of our raw materials and other supplies used in our production could be limited, and access to the official exchange rate for these items for us and our suppliers, including, among others, resin, aluminum, plastic caps, distribution trucks and vehicles is only achieved by obtaining proper approvals from the relevant authorities.

Mercosur (Brazil and Argentina). Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels, and our average acquisition cost for sugar in 2010 increased. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Commodity Price Risk.” We purchase glass bottles, plastic bottles and cans from several domestic and international suppliers.

In Argentina, we mainly use high fructose corn syrup that we purchase from several different local suppliers as a sweetener in our products instead of sugar. We purchase glass bottles, plastic cases and other raw materials from

several domestic sources. We purchase pre-formed plastic ingots, as well as returnable plastic bottles, at competitive prices from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a Coca-Cola bottler with operations in Argentina, Chile and Brazil, and other local suppliers. We also acquire pre-formed plastic ingots from ALPLA Avellaneda S.A. We produce our own can presentations for distribution of our products to our customers in Buenos Aires.

REGULATION

We are subject to regulation in each of the territories in which we operate. The adoption of new laws or regulations in the countries in which we operate may increase our operating costs, our liabilities or impose restrictions on our operations which, in turn, may adversely affect our financial condition, business and results from operations. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on our future results from operations or financial condition.

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. At present, there are no price controls on our products in any of the territories in which we have operations, except for Argentina, where authorities directly supervise certain products sold through supermarkets to control inflation.

Taxation of Sparkling Beverages

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

- Guatemala imposes an excise tax of 0.18 cents in local currency (approximately Ps. 0.2775 as of December 31, 2010) per liter of sparkling beverage.
- Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 15.50 colones (approximately Ps. 0.3705 as of December 31, 2010) per 250 ml, and an excise tax on local brands of 5%, foreign brands of 10% and mixers of 14%.
- Nicaragua imposes a 9% tax on consumption, and municipalities impose a 1% tax on our Nicaraguan gross income.
- Panama imposes a 5% tax based on the cost of goods produced. Panama also imposes a 10% selective consumption tax on syrups, powders and concentrate.
- Brazil imposes an average production tax of approximately 4.4% and an average sales tax of approximately 7.9%, both assessed by the federal government. Most of these taxes are fixed, based on average retail prices in each state where the company operates (VAT) or fixed by the federal government (excise and sales tax).
- Argentina imposes an excise tax on sparkling beverages containing less than 5% lemon juice or less than 10% fruit juice of 8.7%, and an excise tax on flavored sparkling beverages with 10% or more fruit juice and on sparkling water of 4.2%, although this excise tax is not applicable to certain of our products.

Water Supply Law

In Mexico, we obtain 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 two consecutive years. However, because the current concessions for each of our plants in Mexico do not match each plant's projected needs for water in future years, we successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. Our concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations on a timely manner. Although we have not undertaken independent studies to confirm the sufficiency of the existing or future groundwater supply, we believe that our existing concessions satisfy our current water requirements in Mexico.

In Argentina, a state water company provides water to our Alcorta plant on a limited basis; however, we believe the authorized amount meets our requirements for this plant. In our Monte Grande plant in Argentina, we pump water from our own wells without the need for any specific permit or license, regulated by the Law 25.688.

In Brazil, we buy water directly from municipal utility companies, and we also pump water from our own wells or rivers (Mogi das Cruzes plant) pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution, water is considered an asset of common use and can only be exploited for the national interest, by Brazilians or companies formed under Brazilian law. Dealers and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the *Código de Mineração* (Code of Mining, Decree Law No. 227/67), the *Código de Águas Minerais* (Mineral Water Code, Decree Law No. 7841/45), the National Water Resources Policy (Law No. 9433 / 97) and by regulations issued thereunder. The companies that exploit water are supervised by the *Departamento Nacional de Produção Mineira – DNPM* (National Department of Mineral Production) and the National Water Agency in connection with federal health agencies, as well as state and municipal authorities. In the Jundiá and Belo Horizonte plants, we do not exploit mineral water. In the Mogi das Cruzes and Campo Grande plants, we have all the necessary permits related to the exploitation of mineral water.

In Colombia, in addition to natural spring water, we obtain water directly from our own wells and from utility companies. We are required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by law no. 9 of 1979 and decrees no. 1594 of 1984 and no. 2811 of 1974. The National Institute of National Resources supervises companies that exploit water.

In Nicaragua, the use of water is regulated by the *Ley General de Aguas Nacionales* (National Water Law). In Costa Rica, the use of water is regulated by the *Ley de Aguas* (Water Law). In both of these countries, we own and exploit our own water wells granted to us through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in our own plants. In Panama, we acquire water from a state water company, and the use of water is regulated by the *Reglamento de Uso de Aguas de Panamá* (Panama Use of Water Regulation). In Venezuela, we use private wells in addition to water provided by the municipalities, and we have taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the *Ley de Aguas* (Water Law).

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

Environmental Matters

In all of our territories, our operations are subject to federal and state laws and regulations relating to the protection of the environment. In Mexico, the principal legislation is the *Ley General de Equilibrio Ecológico y Protección al Ambiente* (the Federal General Law for Ecological Equilibrium and Environmental Protection) or the Mexican Environmental Law and the *Ley General para la Prevención y Gestión Integral de los Residuos* (the General Law for the Prevention and Integral Management of Waste) which are enforced by the *Secretaría del Medio Ambiente y Recursos Naturales* (the Ministry of the Environment and Natural Resources, or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the

power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have implemented several programs designed to facilitate compliance with air, waste, noise and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City. See “—The Company—Total Sales Distribution.”

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In addition, we are subject to the *Ley de Aguas Nacionales* (the Natural Waters Law), enforced by the Mexican National Water Commission. Adopted in December 1992, the law provides that plants located in Mexico that use deep water wells to supply their water requirements must pay a fee to the city for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the Mexican National Water Commission. All of our bottler plants located in Mexico have met these standards. In addition, our plants in Apizaco and San Cristóbal are certified with ISO 14001. See “—Description of Property, Plant and Equipment.”

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

As part of our environmental protection and sustainability strategies, in December 2009, we, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply green energy to our bottling facility in Toluca, Mexico, owned by our subsidiary, Propimex, S.A. de C.V., or Propimex, and to supply green energy to some of our suppliers of PET bottles. The wind farm, which is located in La Ventosa, Oaxaca, is expected to generate approximately 100 thousand megawatt hours annually. The energy supply services began in April 2010 and, during 2010, provided us with approximately 45 thousand megawatt hours. Additionally, several of our subsidiaries have entered into 20-year wind power supply agreements with Energía Alternativa Istmeña, S. de R.L. de C.V., a company in which FEMSA indirectly holds a 45% interest, to receive electricity for use at our production and distribution facilities throughout Mexico. GAMESA sold its interest in the Mexican subsidiary that owned the wind farm to Iberdrola Renovables México, S.A. de C.V. The wind farms will be located in the state of Oaxaca and we expect that the wind power farms will begin operations in 2013.

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 hazardous and toxic materials, as well as water usage. In some countries in Central America, we are in the process of bringing our operations into compliance with new environmental laws on the timeline established by the relevant regulatory authorities. Our Costa Rica and Panama operations have participated in a joint effort along with the local division of The Coca-Cola Company, *Misión Planeta* (Mission Planet), for the collection and recycling of non-returnable plastic bottles.

Our Colombian operations are subject to several Colombian federal, state and municipal laws and regulations related to the protection of the environment and the disposal of treated water and toxic and hazardous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. For our plants in Colombia, we have obtained the *Certificación Ambiental Fase IV* (Phase

IV Environmental Certificate) demonstrating our compliance at the highest level with relevant Colombian regulations. We are also engaged in nationwide campaigns for the collection and recycling of glass and plastic bottles as well as reforestation programs.

Our Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (the Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (the Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (the Criminal Environmental Law) and the *Ley de Aguas* (the Water Law). Since the enactment of the Organic Environmental Law in 1995, our Venezuelan subsidiary has presented the proper authorities with plans to bring our production facilities and distribution centers into compliance with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in our bottling facilities. Even though we have had to adjust some of the originally proposed timelines due to construction delays, in 2009, we completed the construction and received all the required permits to operate a new water treatment plant in our bottling facility located in the city of Barcelona. At the end of 2009, we also agreed with the relevant authorities to construct a water treatment plant in our Valencia plant within the next 18 months, and construction has begun. We are also in the process of obtaining the necessary authorization and licenses before we can begin the construction of two additional water treatment plants in Antimano and Maracaibo. We expect that by the end of 2011, these three plants will be in operation. We are also in process of obtaining the ISO 14000 certification for all of our plants in Venezuela.

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In addition, in December 2010, the Venezuelan government approved the *Ley Integral de Gestión de la Basura* (Comprehensive Waste Management Law), which will regulate solid waste management and which may be applicable to manufacturers of products for mass consumption. The full scope of this law has not yet been established.

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 hazardous gases and disposal of wastewater and solid waste, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance.

Our production plant located in Jundiaí has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant has been certified for (i) ISO 9001 since March 1995; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; and (iv) ISO 22000 since 2007. In Brazil it is also necessary to obtain concessions from the government to cast drainage. Our plants in Brazil have been granted this concession, except Mogi das Cruzes, where we have timely begun the process of obtaining one. In December, 2010 we increased the capacity of the water treatment plant in our Jundiaí facility.

In Brazil, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, came into effect in May 2008. This regulation requires us to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of São Paulo; such percentage increases each year. As of May 2009, we were required to collect for recycling 50% of the PET bottles sold in the City of São Paulo, as of May 2010, we were required to collect 75%, and as of May 2011, we were required to collect 90%. Currently, we are not able to collect the entire required volume of PET bottles we sold in the City of São Paulo for recycling. If we do not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, we could be fined and be subject to other sanctions, such as the suspension of operations in any of our plants and/or distribution centers located in the City of São Paulo. In May 2008, we and other bottlers in the City of São Paulo, through the *Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas* (Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR), filed a motion requesting a court to overturn this regulation due to the impossibility of compliance. In October 2010 the municipal authority of São Paulo levied a fine on our Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1,750,000 as of December 31, 2010) on the grounds that the report submitted by our Brazilian operating subsidiary did not comply with the 75% proper disposal requirement for the period from May 2008 to May 2010. We filed an appeal against this fine. In addition, in November 2009, in response to a municipal authority request for us to demonstrate the destination of the PET bottles sold in São Paulo, we filed a motion presenting all of our recycling programs and requesting a more practical timeline to comply with the requirements of the law. We are currently awaiting resolution of both matters.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. We are currently discussing with the relevant authorities the impact this law may have on Brazilian companies in complying with the regulation in effect in the City of São Paulo.

Our Argentine operations are subject to federal and municipal laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste water discharge, which are enforced by the *Secretaría de Ambiente y Desarrollo Sustentable* (the Ministry of Natural Resources and Sustainable Development) and the *Organismo Provincial para el Desarrollo Sostenible* (the Provincial Organization for Sustainable Development) for the province of Buenos Aires. Our Alcorta plant is in compliance with environmental standards and we have been certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

For all of our plant operations, we employ an environmental management system: *Sistema de Administración Ambiental* (Environmental Administration System, or EKOSYSTEM) that is contained within the *Sistema Integral de Calidad* (Integral Quality System or SICKOF).

We do not believe that our business activities pose a material risk to the environment, and we believe that we are in material compliance with all applicable environmental laws and regulations.

We have expended, and may be required to expend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, we do not believe that such costs will have a material adverse effect on our results from operations or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly stringent in our territories, and there is increased recognition by local authorities of the need 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 from operations or financial condition. Management is not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

Other regulations

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

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

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. Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase in some of our territories for all *Coca-Cola* trademark beverages concentrate from companies designated by The Coca-Cola Company and artificial sweeteners from companies authorized by The Coca-Cola Company.

These bottler agreements also provide that we will purchase our entire requirement of concentrate 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 for sparkling beverages are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by The Coca-Cola Company at its sole discretion, we set the price of products sold to customers 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 certain subsidiaries of The Coca-Cola Company 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 voting 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, bottling or handling beverages other than *Coca-Cola* trademark beverages, 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, except under

the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements also prohibit us from acquiring or holding an interest in a party that engages in such restricted activities. 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 2010 and has reiterated its intention to continue providing such support as part of our cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—The Shareholders Agreement” and “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—Cooperation Framework with The Coca-Cola Company.”

We have separate bottler agreements with The Coca-Cola Company for each of the territories in which we operate, on substantially the same terms and conditions. These bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement.

In Mexico, we have four bottler agreements; the agreements for two territories expire in June 2013 and the agreements for the other two territories expire in May 2015. Our bottler agreements with The Coca-Cola Company will expire for our territories in the following countries: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014.

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 other 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 license agreements with The Coca-Cola Company pursuant to which we are authorized to use certain trademark names of The Coca-Cola Company with our corporate name. These agreements have a ten-year 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 a 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 investments to modernize our facilities and improve operating efficiency and productivity, including:

- increasing the annual capacity of our bottling plants by installing new production lines;
- installing clarification facilities to process different types of sweeteners;
- installing plastic bottle-blowing equipment;
- modifying equipment to increase flexibility to produce different presentations, including faster sanitation and changeover times on production lines; and
- closing obsolete production facilities.

See “Item 5. Operating and Financial Review and Prospects—Capital Expenditures.”

As of December 31, 2010, we owned 30 bottling plants company-wide. By country, we have nine bottling facilities in Mexico, five in Central America, six in Colombia, four in Venezuela, four in Brazil and two in Argentina.

As of December 31, 2010, we operated 204 distribution centers, approximately 40% of which were in our Mexican territories. We own more than 88% of these distribution centers and lease the remainder. See “—The Company—Product Sales and 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. In most cases 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:

Bottling Facility Summary As of December 31, 2010

Country	Installed Capacity (thousands of unit cases)	% Utilization⁽¹⁾
Mexico	1,651,786	73%
Guatemala	35,909	72%
Nicaragua	63,674	55%
Costa Rica	85,194	53%
Panama	41,428	60%
Colombia	484,344	50%
Venezuela	266,859	76%
Brazil	630,276	69%
Argentina	277,992	67%

(1) Annualized rate.

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

Bottling Facility by Location
As of December 31, 2010

Country	Plant	Facility Area (thousands of sq. meters)
Mexico	San Cristóbal de las Casas, Chiapas	45
	Cuautitlán, Estado de México	35
	Los Reyes la Paz, Estado de México	50
	Toluca, Estado de México	242
	León, Guanajuato	124
	Morelia, Michoacán	50
	Ixtacomitán, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	Guatemala	Guatemala City
Nicaragua	Managua	54
Costa Rica	Calle Blancos (San José)	52
	Coronado (San José)	14
Panama	Panama City	29
Colombia	Barranquilla	37
	Bogotá	105
	Bucaramanga	26
	Cali	76
	Manantial	67
	Medellín	47
Venezuela	Antímano	15
	Barcelona	141
	Maracaibo	68
	Valencia	100
	Brazil	Campo Grande
Brazil	Jundiaí	191
	Mogi das Cruzes	119
	Belo Horizonte	73
	Argentina	Alcorta
Argentina	Monte Grande (Buenos Aires)	32

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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, 2010:

Name of Company	Jurisdiction of Incorporation	Percentage Owned	Description
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Propimex, S.A. de C.V..	Mexico	100.00%	Manufacturer of bottles and distributor of bottled beverages.
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Refrescos Latinoamericanos S.A. Mexico
de C.V.

100.00%

Holding company of manufacturers and
distributors of beverages.

Controladora Interamericana de
Bebidas, S.A. de C.V. Mexico

100.00%

Holding company of manufacturers and
distributors of beverages.

Spal Industria Brasileira de Bebidas, S.A.	Brazil	97.71%	Manufacturer of cans and related products for bottling beverages.
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Coca-Cola FEMSA de Venezuela Venezuela
S.A. (formerly, Panamco
Venezuela, S.A. de C.V.)

100.00%

Manufacturer of bottles and related products
for bottling beverages.

Industria Nacional de Gaseosas
S.A.

100.00%

Manufacturer of bottles and related products
for bottling beverages.

Colombia

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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 Financial Reporting Standards, which differ in certain respects from U.S. GAAP. Notes 26 and 27 to our consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, together with a reconciliation to U.S. GAAP of net income and equity.

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. Sales of beer in Brazil, which are not included in our sales volumes, are excluded from this calculation.

Effects of Changes in Economic Conditions. Our results from 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, 2010, 2009 and 2008, 37.5%, 35.8% and 40.7%, respectively, of our total revenues were attributable to Mexico. In addition to Mexico, we also conduct operations in Central America, Colombia, Venezuela, Brazil and Argentina.

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.

The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. In addition, 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 condition. Depreciation of the Mexican peso relative to the U.S. dollar increases 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 condition.

Recent developments

In January 2010, the Venezuelan government announced a devaluation of its official exchange rate and the establishment of a multiple exchange rate system of: (1) 2.60 bolivars to US\$ 1.00 for high priority categories (2) 4.30 bolivars to US\$ 1.00 for non-priority categories and (3) the recognition of the existence of other exchange rates which the government shall determine. In January 2011, the Venezuelan government announced that its only official exchange rate effective as of January 1, 2011 is 4.30 bolivars to US\$ 1.00, although the Venezuelan government continues to recognize the existence of other exchange rates that the government shall determine.

Beginning in 2012, Mexican issuers with securities listed with the CNBV will be required to prepare financial statements in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board (IASB). Issuers may voluntarily report using IFRS before the change in the reporting standards becomes mandatory. We will begin reporting under IFRS in 2012 with a December 31, 2012 adoption date and a comparative year transition date of January 1, 2011.

On February 18, 2011, our board of directors proposed an ordinary dividend of approximately Ps. 4,358 million. This dividend was approved at the annual shareholders meeting held on March 23, 2011, paid on April 27, 2011, and represents an increase of 67.4% as compared to the dividend paid in April 2010.

On March 28, 2011, we acquired together with The Coca-Cola Company, Grupo Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. We will continue to develop this business jointly with The Coca-Cola Company.

On April 18, 2011, we successfully issued two tranches of *Certificados Bursátiles* – a five-year bond in the aggregate amount of Ps. 2,500 million at a yield of 28-day THIE plus 13 basis points and a 10-year bond in the aggregate amount of Ps. 2,500 million at a fixed rate of 8.27%. A portion of the proceeds from this placement will be used to pay our KOF-07 *Certificado Bursátil* at maturity in March 2012, in the amount of Ps. 3,000 million. The remainder of the proceeds will be used for general corporate purposes, including capital expenditures and working capital.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires that we make estimates and assumptions that affect (1) the recorded amounts of our assets and liabilities, (2) the disclosure of our estimates of assets and contingent liabilities as of the date of the financial statements and (3) the recorded 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 conclusions 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 Note 4 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 is based on an analysis of recoverability of each balance. Most of our sales, however, are realized on a cash basis and consequently do not give rise to doubtful accounts.

Returnable and Non-Returnable Bottles and Cases. We have two types of bottles and cases: returnable and non-returnable. Non returnable bottles and cases are recorded in the results from operations at the time of product sale; returnable bottles and cases are classified as long-lived assets as a component of property, plant and equipment. Returnable bottles and cases are recorded at acquisition cost for countries with an inflationary economy, then restated applying inflation factors as of the balance sheet date, according to NIF B-10.

There are also two types of returnable bottles and cases: (1) those that are in our control within our facilities, plants and distribution centers; and (2) those that have been placed in the hands of customers, but still belong to our Company.

Depreciation of returnable bottles and cases is computed using the straight line method over acquisition cost. We estimate depreciation rates, considering their estimated useful lives. Estimated useful life for returnable glass bottles and plastic cases in plants and distribution centers is four years, and 18 months for returnable plastic bottles. Estimated useful life for returnable bottles and plastic cases that have been placed in the hands of customers is 24 months for glass bottles and 12 months for plastic bottles. Our 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 depreciated according to their useful lives.

Property, Plant and Equipment and Other Assets. We depreciate and amortize property, plant and equipment and other assets 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 the experience of our technical personnel. Depreciation and amortization are computed using the straight-line method.

Valuation of Intangible Assets. Our intangible assets mainly consist of rights to produce and distribute *Coca-Cola* trademark products in our territories, recognized at their fair value at the date of acquisition, in accordance with Mexican Financial Reporting Standards. 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.

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We value at fair value all assets and liabilities as of the date of acquisition and we conduct an analysis of the excess purchase price over the fair value of the net assets. This analysis results in the recognition of an intangible asset with indefinite life for the right to produce and distribute *Coca Cola* trademark beverages, which are subject to annual impairment tests under Mexican Financial Reporting Standards. Intangible assets are recorded in the functional currency of the subsidiary in which the investment was made and are subsequently translated into Mexican pesos applying the closing exchange rate of each period. Beginning in 2008, for operations in an inflationary economic environment the intangible assets are restated by applying inflation factors of the country of origin and are translated into Mexican pesos at the year-end exchange rate. Through 2007, the intangible assets with indefinite lives were restated by applying inflation factors of the country of origin, regardless of the economic environment, and were translated at the year-end exchange rate.

Intangible assets with indefinite life are no longer subject to amortization, but instead are subject to an initial impairment review and subsequent impairment test.

Historically, our bottler agreements have been renewed, and we have not experienced any significant termination of our bottler agreements. All of our bottler agreements provide for renewal at no cost and without any change in their terms and conditions. We also do not believe that any law or regulation could oppose or otherwise adversely affect the renewal of such agreements.

Impairment of Intangible Assets (with indefinite and definitive lives) and Long-Lived Assets. We continually review the carrying value of our intangible assets 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. This test is performed annually or more frequently if deemed necessary.

Our evaluations indicate that no significant impairment of intangible assets or long-lived assets has been required. 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 severance payments from causes other than restructuring. Labor liabilities are determined using long-term assumptions.

We evaluate our assumptions at least annually. Those assumptions 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 rate. The assumptions include the economic risks existing in the countries in which our business operates.

In accordance with Mexican Financial Reporting Standards, 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 labor obligations and our future expense.

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The following table is a summary of the three key assumptions used in determining 2010 annual labor cost, along with the impact on pension cost of a 1% change in each assumed rate:

Assumption	2010 real rates for inflationary countries⁽¹⁾	2010 nominal rates for noninflationary countries⁽¹⁾	Impact of 1% change (millions)⁽²⁾
Annual discount rate	1.5% - 2.6%	5.5% - 9.7%	+ Ps. (162) - Ps. 210
Salary increase	1.5%	4.0% - 6.5%	+ Ps. 168 - Ps. 114
Estimated return on plan assets	0.5% ⁽³⁾	7.0% - 11.2% ⁽³⁾	+ Ps. 86

(1) Calculated using a measurement date of December 2010.

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

(3) Not applicable for Colombia and Guatemala.

The total period cost related to the pension plan is recorded as an operating expense.

Deferred Income Taxes – Valuation Allowance. 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 adjust valuation allowances.

Tax, Legal and Labor Contingencies. We are subject to various claims and contingencies related to tax, labor and other legal proceedings. 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 applicable relevant circumstances, as appropriate. We accrue a liability for the estimated loss in accordance with accounting rules.

New Accounting Pronouncements

Presented below is a summary of recently issued accounting pronouncements.

Mexican Financial Reporting Standards.

NIF C-4, “Inventories.” In November 2010, the *Consejo Mexicano de Normas de Información Financiera, A.C.*, or the CINIF, issued NIF C-4, which will be effective for fiscal years beginning on or after January 1, 2011 and will replace Mexican accounting Bulletin C-4, “Inventories.” Any accounting changes resulting from the adoption of this standard related to changes in the formula for assigning inventory costs are to be recognized retrospectively. Changes in valuation methods must be recognized prospectively.

The principal difference between Mexican accounting Bulletin C-4 and NIF C-4 is that the new standard does not allow using direct costs as the inventory valuation method nor does it allow the usage of the LIFO cost method as the formulas (under the former method) for the assignment of unit cost to the inventories. Mexican NIF C-4 establishes that inventories must be valued at the lower of either acquisition cost or net realizable value and that advances to suppliers for the acquisition of merchandise must be classified as inventories provided that the risks and benefits are transferred to the Company. NIF C-4 also establishes the standards for service supplier inventory valuations.

We have estimated that the adoption of NIF C-4 will not have a material impact on our consolidated financial statements.

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NIF C-5, “Prepaid Expenses.” In November 2010, the CINIF issued NIF C-5, which will be effective for fiscal years beginning on or after January 1, 2011. NIF C-5 will replace Mexican accounting Bulletin B-5. Any accounting changes resulting from the adoption of this standard shall be recognized retrospectively.

This standard establishes that the main characteristic of prepaid expenses is that they do not result in the transfer to the entity of the benefits and risks inherent to the goods or services to be received. Consequently, prepaid expenses must be recognized in the balance sheet as either current or non-current assets, depending on the item classification in the statement of financial position. Moreover, NIF C-5 establishes that prepaid expenses made for goods or services whose inherent benefits and risks have already been transferred to the entity must be carried to the appropriate caption.

We have estimated that the adoption of NIF C-5 will not have a material impact on our consolidated financial statements.

NIF C-6, “Property, Plant and Equipment.” NIF C-6 was issued by the CINIF in December 2010 to replace Mexican accounting Bulletin C-6, “Property, Machinery and Equipment,” and will be effective for fiscal years beginning on or after January 1, 2011, except for the changes related to the segregation of property, plant and equipment into separate components for those assets with different useful lives. For entities that have not performed this component segregation, the provisions of this new standard will be effective as of January 1, 2012.

Unlike Mexican accounting Bulletin C-6, this standard includes within its scope the tax treatment for assets acquired to develop or maintain biological assets and assets related to the mining industry. Among other elements, it establishes that for acquisitions of free-of charge assets, the cost of the assets must be zero, thus eliminating the option of performing appraisals. In the case of asset exchanges, NIF C-6 requires entities to determine the commercial substance of the transaction and the depreciation of these assets must be applied against the components of the assets, and the amount to be depreciated is the cost of acquisition less the asset’s residual value. Prepaid expenses for the acquisition of assets are to be recognized as a component of the asset as of the time the benefits and risks inherent to such assets are transferred. In the case of retirement of assets, income is recognized when the requirements for income recognition outlined under the standard have been met. There are also specific disclosures required for public entities.

We have estimated that the adoption of NIF C-6 will not have a material impact on our consolidated financial statements.

NIF C-18, “Obligations related to retirement of property, plant and equipment.” In December 2010, the CINIF issued NIF C-18, which will be effective for fiscal years beginning on or after January 1, 2011.

This standard establishes the accounting treatment for the initial and subsequent recognition of a liability for provision for legal obligations or assumed related to the retirement of property, plant and equipment recognized as a result of the acquisition, construction, development and/or normal operating of such components.

This standard also establishes that an entity must initially recognize a provision for obligations related to retirement of property, plant and equipment based on its best estimate of the disbursements required to settle the present obligation at the time it is assumed, provided a reliable estimate can be made of the amount of the obligation. The best estimate of a provision for an obligation associated with the retirement of property, plant and equipment components should be determined using the expected present value method.

We have estimated that the adoption of NIF C-18 will not have a material impact on our consolidated financial statements.

U.S. GAAP. There are no significant new accounting standards effective in year 2011 impacting the Company.

Results from Operations

The following table sets forth our consolidated income statement for the years ended December 31, 2010, 2009 and 2008.

	Year Ended December 31,			
	2010⁽¹⁾	2010	2009	2008
	(2010, 2009 and 2008 in millions of Mexican pesos or millions of U.S. dollars)			
Revenues:				
Net sales	US\$ 8,317	Ps. 102,988	Ps. 102,229	Ps. 82,468
Other operating revenues	38	468	538	508
Total revenues	8,355	103,456	102,767	82,976
Cost of good sold	4,485	55,534	54,952	43,895
Gross profit	3,870	47,922	47,815	39,081
Operating expenses:				
Administrative	359	4,449	5,308	4,095
Selling	2,132	26,394	26,672	21,291
	2,491	30,843	31,980	25,386
Income from operations	1,379	17,079	15,835	13,695
Other expenses, net	104	1,292	1,449	1,831
Comprehensive financing result:				
Interest expense	141	1,748	1,895	2,207
Interest income	(23)	(285)	(286)	(433)
Foreign exchange loss	34	423	370	1,477
Gain on monetary position in inflationary subsidiaries	(33)	(414)	(488)	(658)
Market value (gain) loss on ineffective portion of derivative financial instruments	(20)	(244)	(118)	959
	99	1,228	1,373	3,552
Income before income taxes	1,176	14,559	13,013	8,312
Income taxes	344	4,260	4,043	2,486
Consolidated net income	US\$ 832	Ps. 10,299	Ps. 8,970	Ps. 5,826
Controlling interest net income	791	9,800	8,523	5,598
Non-controlling interest net income	41	499	447	228
Consolidated net income	US\$ 832	Ps. 10,299	Ps. 8,970	Ps. 5,826
Net controlling income (U.S. dollars and Mexican pesos):				
Data per share	US\$ 0.43	Ps. 5.31	Ps. 4.62	Ps. 3.03

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 12.3825 per US\$ 1.00 solely for the convenience of the reader.

Operations by Reportable Segment

The following table sets forth certain financial information for each of our reportable segments for the years ended December 31, 2010, 2009 and 2008. See Note 25 to our consolidated financial statements for additional information by reporting segment.

	Year Ended December 31,		
	2010	2009	2008
	(2010, 2009 and 2008 in millions of Mexican pesos)		
Total revenues			
Mexico	Ps. 38,782	Ps. 36,785	Ps. 33,799
Latincentro ⁽¹⁾	17,281	15,993	12,791
Venezuela	14,033	22,430	15,182
Mercosur ⁽²⁾	33,360	27,559	21,204
Gross profit			
Mexico	Ps. 19,049	Ps. 18,389	Ps. 17,315
Latincentro ⁽¹⁾	8,126	7,690	6,057
Venezuela	6,472	9,950	6,294
Mercosur ⁽²⁾	14,275	11,786	9,415
Income from operations			
Mexico	Ps. 6,605	Ps. 6,849	Ps. 6,715
Latincentro ⁽¹⁾	3,022	2,937	2,370
Venezuela	2,444	1,815	1,289
Mercosur ⁽²⁾	5,008	4,234	3,321

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

(2) Includes Brazil and Argentina.

Results from Operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009**Consolidated Results from Operations**

Total Revenues. Consolidated total revenues increased 0.7% to Ps. 103,456 million in 2010, as compared to 2009, as a result of revenue growth in our Mercosur and Mexico divisions and despite the devaluation of the Venezuelan bolivar. On a currency neutral basis and excluding the acquisition of Brisa in Colombia, our consolidated revenues for 2010 increased by approximately 15%.

Total sales volume increased 2.9% to 2,499.5 million unit cases in 2010, as compared to 2009. The sparkling beverage category, driven by a 4% growth of the *Coca-Cola* brand, contributed more than 70% of incremental volumes. The still beverage category, mainly driven by the performance of the *Jugos del Valle* line of business across our territories, grew 11% and accounted for approximately 20% of incremental volumes. The consolidation of the *Brisa* water brand in Colombia drove an 8% growth in our bottled water portfolio and represented the balance. Excluding the non-comparable effect of Brisa, total sales volume increased 2.1% to reach 2,479.6 million unit cases.

Consolidated average price per unit case declined 2.6%, reaching Ps. 39.89 in 2010, as compared to Ps. 40.95 in 2009 as a consequence of the devaluation of the Venezuelan bolivar. In local currency, average price per unit case increased in all of our territories mainly driven by price increases implemented during the year and higher volumes of sparkling beverages, which carry higher average price per unit case.

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Gross Profit. Gross profit increased 0.2% to Ps. 47,922 million in 2010, as compared to 2009, despite the devaluation of the Venezuelan bolivar. Cost of goods sold increased 1.1% as a result of increases in the cost of sweetener across our operations, which was partially offset by the appreciation of the Brazilian real, the Colombian peso and the Mexican peso as applied to our U.S. dollar-denominated raw material costs. Gross margin reached 46.3% for 2010, a decrease of 20 basis points as compared to 2009.

The components of cost of goods sold include raw materials (principally soft drink concentrate and sweeteners), packaging materials, depreciation costs attributable to our production facilities, wages and other employment costs associated with the labor force employed at our production facilities and certain overhead costs. Concentrate prices are determined as a percentage of the retail price of our products in local currency net of applicable taxes. Packaging materials, mainly PET and aluminum, and high fructose corn syrup, used as a sweetener in some countries, are denominated in U.S. dollars.

Operating Expenses. Consolidated operating expenses as a percentage of total revenues decreased to 29.8% in 2010 from 31.1% in 2009. Operating expenses in absolute terms decreased 3.6%, mainly as a result of the devaluation of the Venezuelan bolivar. In local currency, operating expenses increased mainly as a result of (i) continued marketing investment in our Mexico division to support our execution in the marketplace, widen our cooler coverage and broaden our returnable base availability, (ii) higher labor and freight costs in Argentina, and (iii) higher labor costs in Venezuela.

Income from Operations. Our consolidated operating income increased 7.9% to Ps. 17,079 million in 2010, as compared to 2009. Our Mercosur division and Venezuela accounted for more than 90% of incremental operating income in 2010, while Colombia and Central America represented the balance. These increases compensated for an operating income decline in our Mexico division. Our operating margin was 16.5% in 2010, an expansion of 110 basis points as compared to 2009.

Other Expenses, Net. During 2010, we recorded Ps. 1,292 million in other expenses, net. These expenses were mainly composed of employee profit sharing and the loss on sale of certain fixed assets.

Comprehensive Financing Result. The term “comprehensive financing result” refers to the combined financial effects of net interest expense, net foreign exchange gains or losses, and net gains or losses on monetary position from our countries which qualify as inflationary economies. 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.

Comprehensive financing results in 2010 recorded an expense of Ps. 1,228 million, as compared to an expense of Ps. 1,373 million in 2009, mainly due to lower net interest cost.

Income Taxes. Income taxes increased to Ps. 4,260 million in 2010 from Ps. 4,043 million in 2009. During 2010, taxes as a percentage of income before taxes were 29.3% as compared to 31.1% in the previous year.

Controlling Interest Net Income. Consolidated controlling interest net income increased 15.0% to Ps. 9,800 million in 2010 as compared to 2009, mainly as a result of higher operating income. Earnings per share (EPS) in 2010 was Ps. 5.31 (Ps. 53.07 per ADS) computed on the basis of 1,846.5 million shares outstanding (each ADS represents 10 local shares).

Consolidated Results from Operations by Reporting Segment

Mexico

Total Revenues. Total revenues from our Mexico division increased 5.4% to Ps. 38,782 million in 2010, as compared to 2009. Higher average price per unit case accounted for close to 80% of the incremental revenues during this period. Average price per unit case increased to Ps. 31.12, a 4.2% increase, as compared to 2009, mainly reflecting selective price increases implemented during the year, higher volumes from the *Coca-Cola* brand, which carries higher average prices per unit case and, to a lesser extent, higher average prices per unit case from our growing still beverage portfolio. Excluding bulk water under the *Ciel* brand, our average price per unit case was Ps. 36.06, a 3.4% increase, as compared to 2009.

Total sales volume increased 1.2% to 1,242.3 million unit cases in 2010, as compared to 1,227.2 million unit cases in 2009, resulting from incremental volume of the *Coca-Cola* brand, that grew by close to 3%, and an increase of close to 5% in the still beverage category, mainly driven by the *Jugos del Valle* product line and *Nestea*, our ready-to-drink tea line. These increases more than compensated for a 4% decline in the bulk water category.

Operating Income. Gross profit increased 3.6% to Ps. 19,049 million in 2010, as compared to 2009. Cost of goods sold increased 7.3% mainly as a result of higher sweetener and PET costs, which were partially offset by the appreciation of the Mexican peso as applied to our U.S. dollar-denominated raw material costs. Gross margin decreased from 50.0% in 2009 to 49.1% in 2010.

Operating income decreased 3.6% to Ps. 6,605 million in 2010, compared to Ps. 6,849 million in 2009. Operating expenses grew 7.8% mainly due to continued marketing investment to support our execution in the marketplace, widen our cooler coverage and broaden our returnable base availability. Our operating margin was 17.0% in 2010, a decrease of 160 basis points as compared to 2009, mainly due to gross margin pressures.

Latincentro (excluding Venezuela)

Total Revenues. Total revenues for Colombia and Central America were Ps. 17,281 million in 2010, an increase of 8.1% as compared to 2009. Higher average price per unit case contributed almost 55% of incremental revenues during this period. Consolidated average price per unit case for Colombia and Central America was Ps. 45.30 in 2010, representing a 4.2% increase as compared to 2009. On a currency neutral basis and excluding the acquisition of Brisa, our Colombian and Central American revenues increased by approximately 6%.

Total sales volume for Colombia and Central America increased 3.6% to 381.3 million unit cases in 2010 resulting from (i) a 23% increase in our bottled water business, mainly due to the integration of Brisa in Colombia, accounting for approximately 80% of incremental volumes, (ii) incremental volumes in sparkling beverages, driven by the *Coca-Cola* brand, which grew 1%, representing approximately 10% of the growth of our total sales volume and (iii) an increase of 4% in the still beverage category, mainly driven by the *Jugos del Valle* product line, contributing the balance. These increases more than compensated for a decline in flavored sparkling beverages volumes.

Operating Income. Gross profit was Ps. 8,126 million, an increase of 5.7% in 2010, as compared to 2009. Cost of goods sold increased 10.3%, mainly as a result of higher sweetener costs in the region, which were partially offset by the appreciation of certain local currencies as applied to our U.S. dollar-denominated raw material costs. Gross margin decreased from 48.1% in 2009 to 47.0% in 2010, a decrease of 110 basis points.

Our operating income increased 2.9% to Ps. 3,022 million in 2010, compared to the previous year. Operating expenses grew 7.4% mainly due to the integration of the *Brisa* portfolio in Colombia and the continued expansion of the *Jugos del Valle* line of business in Colombia and Central America during the first half of 2010. Our operating margin reached 17.5% in 2010, resulting in a 90 basis points decline as compared to 2009.

Venezuela

Total Revenues. Total revenues in Venezuela reached Ps. 14,033 million in 2010, a decline of 37.4% as compared to 2009, due principally to the devaluation of the Venezuelan bolivar. Average price per unit case was Ps. 66.41 in 2010, representing a decrease of 33.2% as compared to 2009. In local currency, higher average price per unit case accounted for incremental revenues during the year. On a currency neutral basis, our revenues in Venezuela increased by approximately 32%.

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Total sales volume decreased 6.3% to 211.0 million unit cases in 2010, as compared to 225.2 million unit cases in 2009. The sales volume in the sparkling beverages and still beverages categories declined approximately 7% and 3%, respectively, while sales volume in the bottled water category, including bulk water, remained flat.

Operating Income. Gross profit was Ps. 6,472 million in 2010, a decrease of 35.0% compared to 2009, principally due to the devaluation of the Venezuelan bolivar. Cost of goods sold decreased 39.4%. In local currency, cost of goods sold increased mainly due to higher sweetener costs. Gross margin increased from 44.4% in 2009 to 46.1% in 2010, an expansion of 170 basis points.

Operating income increased 34.7% to Ps. 2,444 million in 2010 compared to the previous year. Operating expenses declined 50.5%, principally due to the devaluation of the Venezuelan bolivar. In local currency, higher labor costs were partially offset by lower marketing and administrative expenses. Operating margin was 17.4% in 2010, as compared to 8.1% in 2009.

Mercosur

Total Revenues. Total revenues increased 21.0% to Ps. 33,360 million in 2010, as compared to 2009. Excluding beer sales, which accounted for Ps. 3,313 million during 2010, total revenues increased 21.3% to Ps. 30,047 million compared to 2009. Higher average price per unit case accounted for approximately 55% of incremental revenues, excluding beer. On a currency neutral basis, revenues for 2010 increased by approximately 19%.

Sales volume, excluding beer, increased 9.3% to 664.9 million unit cases in 2010, as compared to 2009. The sparkling beverage category grew 8%, mainly driven by a 9% increase in the *Coca-Cola* brand, accounting for close to 80% of incremental volumes. The still beverage category grew 41%, mainly driven by the *Jugos del Valle* line of products in Brazil and volumes of *Aquarius*, our flavored water brand in Argentina, contributing more than 15% of incremental volumes. The bottled water category grew 13%, representing the balance.

Operating Income. In 2010, gross profit increased 21.1% to Ps. 14,275 million, as compared to the previous year. Cost of goods sold increased 21.0%, mainly due to higher cost of sweetener in the division and higher cost of PET in Argentina, which was partially offset by the appreciation of the Brazilian real as applied to our U.S.

dollar-denominated raw material cost. Gross margin remained flat at 42.8% in 2010.

Operating income increased 18.3% to Ps. 5,008 million in 2010, as compared to Ps. 4,234 million in 2009. Operating expenses grew 22.7% mainly due to higher labor and freight costs in Argentina. Operating margin was 15.0% in 2010, a decrease of 40 basis points as compared to 2009.

Results from Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Consolidated Results from Operations

Total Revenues. Consolidated total revenues increased 23.9% to Ps. 102,767 million in 2009, as compared to 2008, as a result of revenue growth in all of our divisions. Organic growth across our operations contributed more than 75% of incremental revenues; the acquisitions of REMIL in Brazil and the Brisa water business in Colombia together contributed slightly less than 15% and a positive exchange rate translation effect, resulting from the depreciation of the Mexican peso against the local currencies in the other countries where we operate, accounted for approximately 10%, representing the balance. For comparison purposes, REMIL was first included in our operating results beginning June 1, 2008. REMIL was included as an acquisition during the months of January through May 2009. Brisa has been included in our operating results for Colombia, the Latincentro division and on a consolidated basis beginning June 1, 2009. On a currency neutral basis and excluding the acquisitions of REMIL and Brisa, our consolidated revenues for 2009 would have increased by approximately 19%.

Total sales volume increased 8.3% to 2,428.6 million unit cases in 2009, as compared to 2008. Excluding the acquisitions of REMIL and Brisa, total sales volume increased 5.1% to reach 2,357.0 million unit cases. Organic volume growth was a result of (1) growth in sparkling beverages, driven by a 4% increase in the *Coca-Cola* brand across our territories, accounting for approximately 45% of incremental volumes, (2) growth in the still beverage category, mainly driven by the *Jugos del Valle* line of products in our operations in Mexico and Colombia, contributing less than 45% of incremental volumes and (3) a 4% increase in our bottled water category, representing the balance.

Consolidated average price per unit case grew 13.9%, reaching Ps. 40.95 in 2009, as compared to Ps. 35.94 in 2008. The increase in consolidated average price per unit case resulted from price increases implemented across our territories and higher volumes of sparkling beverages, which carry higher average price per unit case.

Gross Profit. Gross profit increased 22.3% to Ps. 47,815 million in 2009, as compared to 2008, driven by gross profit growth across all of our divisions. Cost of goods sold increased 25.2% as a result of (1) the devaluation of local currencies in our operations in Mexico, Colombia and Brazil as applied to our U.S. dollar-denominated raw material costs, (2) the higher cost of sweetener across our operations, (3) the integration of REMIL and (4) the third and final stage of the scheduled Coca-Cola Company concentrate price increase announced in 2006 in Mexico, all of which were partially offset by lower resin costs. Gross margin reached 46.5% in 2009, a decrease of 60 basis points as compared to 2008.

Operating Expenses. Consolidated operating expenses as a percentage of total revenues increased to 31.1% in 2009 from 30.6% in 2008. Operating expenses in absolute terms increased 26.0% mainly as a result of (1) higher labor costs in Venezuela, (2) increased marketing investments in the Mexico division to support execution in the marketplace, widen our cooler coverage and increase our returnable base, (3) the integration of REMIL in Brazil and (4) increased marketing expenses in the Latincentro division mainly due to the integration of the *Brisa* portfolio in Colombia and the continued expansion of the *Jugos del Valle* line of products in Colombia and Central America.

Income from Operations. Consolidated operating income increased 15.6% to Ps. 15,835 million in 2009, as compared to 2008. Increases in operating income from our Latincentro division, including Venezuela, accounted for approximately 50% of this growth, while operating income growth in our Mercosur division accounted for more than 40% of incremental operating income. Our operating margin was 15.4% in 2009, a decline of 110 basis points as compared to 2008.

Other Expenses, Net. During 2009, we recorded Ps. 1,449 million in other expenses. These expenses were mainly composed of employee profit sharing and the loss on the sale of certain fixed assets.

Comprehensive Financing Result. Comprehensive financing result in 2009 recorded an expense of Ps. 1,373 million, as compared to an expense of Ps. 3,552 million in 2008, mainly due to the appreciation of the Mexican peso as applied to a lower U.S. dollar-denominated net debt position and lower interest expenses due to lower gross debt.

Income Taxes. Income taxes increased to Ps. 4,043 million in 2009 from Ps. 2,486 million in 2008. During 2009, taxes as a percentage of income before taxes were 31.1% as compared to 29.9% in the previous year. The difference in the effective tax rate was mainly due to the reversal of a tax allowance during 2008 recorded in previous periods.

Controlling Interest Net Income. Consolidated net controlling interest income (previously referred to as “majority net income” under Mexican Financial Reporting Standards) was Ps. 8,523 million in 2009, an increase of 52.3% compared to 2008, mainly reflecting higher operating income in combination with a more favorable comprehensive financing result. Net controlling interest earnings per share, or EPS, was Ps. 4.62 (Ps. 46.16 per ADS) in 2009, computed on the basis of 1,846.5 million shares outstanding (each ADS represents 10 local shares).

Consolidated Results from Operations by Reporting Segment

Mexico

Total Revenues. Total revenues from our Mexico division increased 8.8% to Ps. 36,785 million in 2009, as compared to 2008. Incremental volumes accounted for close to 80% of incremental revenues during this period. Average price per unit case increased to Ps. 29.86, a 1.9% increase, as compared to 2008, mainly reflecting higher volumes from the *Coca-Cola* brand, which carries higher average prices per unit case, higher average prices per unit case from our growing still beverage portfolio and selective price increases implemented during the fourth quarter of 2009. Excluding bulk water under the *Ciel* brand, our average price per unit case was Ps. 34.89, a 1.7% increase, as compared to 2008.

Total sales volume increased 6.8% to 1,227.2 million unit cases in 2009, as compared to 1,149.0 million unit cases in 2008, resulting from (1) incremental volumes of the *Coca-Cola* brand, that grew more than 6%, (2) an increase of more than 80% in the still beverage category, driven by the *Jugos del Valle* product line and (3) more than 6% volume growth in our bottled water business, including bulk water.

Operating Income. Gross profit increased 6.2% to Ps. 18,389 million in 2009, as compared to 2008. Cost of goods sold increased 11.6% mainly as a result of (1) the devaluation of the Mexican peso as applied to our U.S. dollar-denominated raw material costs, (2) the third and final stage of the scheduled Coca-Cola Company concentrate price increase and (3) higher sweetener costs, all of which were partially offset by lower resin costs. Gross margin decreased from 51.2% in 2008 to 50.0% in 2009.

Operating income increased 2.0% to Ps. 6,849 million in 2009, compared to Ps. 6,715 million in 2008. Operating expenses grew 8.9% as a result of increased marketing investment to support our execution in the marketplace and higher selling expenses, mainly due to the integration of the specialized *Jugos del Valle* sales force and the development of the jug water business in the Valley of Mexico during the first half of 2009. Our operating margin was 18.6% in 2009, a decrease of 130 basis points as compared to 2008, mainly due to gross margin pressures.

Latincentro (excluding Venezuela)

Total Revenues. Total revenues for Colombia and Central America were Ps. 15,993 million in 2009, an increase of 25.0% as compared to 2008. Higher average price per unit case and volume growth each contributed equally to incremental revenues during this period. Consolidated average price per unit case for Colombia and Central America was Ps. 43.47 in 2009, representing a 12.5% increase as compared to 2008. Organic growth across our operations contributed more than 45% of incremental revenues, a positive currency translation effect, resulting from the depreciation of the Mexican peso against our operation's local currencies, represented approximately 40% of incremental revenues and the integration of Brisa represented the balance. Without the effect of a currency translation and excluding the acquisition of Brisa, our Colombian and Central American revenues would have increased by approximately 12%.

Total sales volume for Colombia and Central America increased 11.3% to 368.0 million unit cases in 2009 resulting from (1) a more than 85% growth in our bottled water business, due to the integration of Brisa in Colombia, accounting for close to 60% of incremental volumes, (2) an increase of more than 95% in the still beverage category,

driven by the *Jugos del Valle* product line, contributing more than 35% of the incremental and (3) incremental volumes of the *Coca-Cola* brand, that grew 3%, representing the balance.

Operating Income. Gross profit was Ps. 7,690 million, an increase of 27.0% in 2009, as compared to 2008. Cost of goods sold increased 23.3%, mainly as a result of higher sweetener costs and the depreciation of certain local currencies as applied to our U.S. dollar-denominated raw material costs, which were partially offset by the lower cost of resin. Gross margin increased from 47.4% in 2008 to 48.1% in 2009, an expansion of 70 basis points.

Our operating income increased 23.9% to Ps. 2,937 million in 2009, compared to the previous year. Operating expenses grew 28.9% as a result of increased marketing expenses, mainly due to the integration of the *Brisa* portfolio in Colombia and the continued expansion of the *Jugos del Valle* line of business in Colombia and Central America. Our operating margin reached 18.4% in 2009, resulting in a 10 basis points decline as compared to 2008.

Venezuela

Total Revenues. Total revenues in Venezuela reached Ps. 22,430 million in 2009, an increase of 47.7% as compared to 2008. Higher average price per unit case accounted for approximately 75% of incremental revenues during the period. Average price per unit case was Ps. 99.47 in 2009, representing an increase of 35.6% as compared to 2008. Without the negative effect of currency translation resulting from the appreciation of the Mexican peso against our operation's local currency, our revenues in Venezuela would have increased by approximately 53%.

Total sales volume increased 9.0% to 225.2 million unit cases in 2009, as compared to 206.7 million unit cases in 2008, mainly due to an increase of more than 9% in sparkling beverages sales volume, principally related to flavored sparkling beverages.

Operating Income. Gross profit was Ps. 9,950 million in 2009, an increase of 58.1% compared to 2008. Cost of goods sold increased 40.4% mainly due to higher packaging and sweetener costs. Gross margin increased from 41.5% in 2008 to 44.4% in 2009, an expansion of 290 basis points.

Operating income increased 40.8% to Ps. 1,815 million in 2009 compared to the previous year. Operating expenses grew 62.5% mainly as a result of higher labor costs. Operating margin was 8.1% in 2009, a decline of 40 basis points as compared to 2008.

Mercosur

Total Revenues. Total revenues increased 30.0% to Ps. 27,559 million in 2009, as compared to 2008. Excluding beer, which accounted for Ps. 2,783 million during 2009, total revenues increased 28.2% to Ps. 24,776 million compared to 2008. Organic growth contributed more than 40% of incremental revenues, the acquisition of REMIL in Brazil contributed more than 30% of incremental revenues and a positive exchange rate translation effect, mainly due to the depreciation of the Mexican peso against the Brazilian real, represented the balance. Without the effect of currency translation and the acquisition of REMIL, revenues for 2009 would have increased by approximately 13%.

Sales volume, excluding beer, increased 9.3% to 608.2 million unit cases in 2009, as compared to 2008, mainly due to the acquisition of REMIL. Sales volume, excluding REMIL and beer, increased 1.3% to 564.0 million unit cases. The still beverage category grew almost 55%, as a result of volume increases in flavored bottled water sales in Argentina and the Jugos del Valle line of business in Brazil, which was partially offset by a decline in sparkling beverages in Argentina.

Operating Income. In 2009, gross profit increased 25.2% to Ps. 11,786 million, as compared to the previous year. Cost of goods sold increased 33.8%, due to (i) the integration of REMIL in Brazil, (ii) the devaluation of local currencies as applied to our U.S. dollar-denominated raw material cost and (iii) higher sweetener costs, all of which were partially compensated by lower resin costs. Gross margin decreased 160 basis points to 42.8% in 2009.

Operating income increased 27.5% to Ps. 4,234 million in 2009, as compared to Ps. 3,321 million in 2008. Operating expenses grew 23.9% mainly due to the integration of REMIL and higher labor and freight costs in Argentina. Operating margin was 15.4% in 2009, a decrease of 30 basis points as compared to 2008.

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 most of our sales are made on a cash basis, while we generally pay our suppliers on credit. In recent periods, we have mainly used cash generated from operations to fund acquisitions. We have also used a combination of borrowings from Mexican and international banks and issuances in the Mexican and international capital markets.

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Our total indebtedness was Ps. 17,351 million as of December 31, 2010, as compared to Ps. 15,925 million as of December 31, 2009. Short-term debt and long-term debt were Ps. 1,840 million and Ps. 15,511 million, respectively, as of December 31, 2010, as compared to Ps. 5,427 million and Ps. 10,498 million, respectively, as of December 31, 2009. Total debt increased Ps. 1,426 million in 2010, compared to year end 2009. In February 2010, we issued 4.625% Senior Notes due on February 15, 2020, in an aggregate principal amount of US\$ 500 million. The proceeds were used to pay the maturity of Ps. 2,000 million and Ps. 1,000 million of *Certificados Bursátiles* in February and April 2010, respectively, and to prepay US\$ 202 million of bank loans. In addition, during 2010, we increased our debt denominated in Colombian pesos by an amount equivalent to US\$ 127 million (as calculated at the exchange rate on December 31, 2010). Net debt decreased Ps.1,154 million in 2010 mainly as a result of cash generated by our operations, net of debt and dividend payments made during the year. As of December 31, 2010, cash and cash equivalents, were Ps. 12,534 million, as compared to Ps.9,954 million as of December 31, 2009. As of December 31, 2010, our cash and cash equivalents were comprised of 61% U.S. dollars, 20% Mexican pesos, 13% Brazilian reais, 3% Venezuelan bolivars, 1% Colombian pesos and 1% Argentinean pesos. As of March 31, 2011, our cash and cash equivalents balance was Ps. 13,488 million, including US\$ 600 million denominated in U.S. dollars. These funds, in addition to the cash generated by our operations, are sufficient to meet our operating requirements.

As part of our financing policy, we expect to continue to finance our liquidity needs with 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. Exchange controls like those in Venezuela may also increase the real price of remitting cash from operations to fund debt 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, our liquidity in Venezuela could be affected by changes in the rules applicable to exchange rates as well as other regulations, such as exchange controls. In the future we may finance our working capital and capital expenditure needs with short-term or other borrowings.

In January 2010, the Venezuelan government announced a devaluation of its official exchange rate and the establishment of a multiple exchange rate system of: (1) 2.60 bolivars to US\$ 1.00 for high priority categories (2) 4.30 bolivars to US\$ 1.00 for non-priority categories and (3) the recognition of the existence of other exchange rates which the government shall determine. In January 2011, the Venezuelan government announced that its only official exchange rate effective as of January 1, 2011 is 4.30 bolivars to US\$ 1.00, although the Venezuelan government continues to recognize the existence of other exchange rates that the government shall determine; we expect that this could have an impact on our financial results and shareholders' equity.

We continuously evaluate opportunities to pursue acquisitions or engage in strategic transactions. We would expect to finance any significant future transactions with a combination of any of cash from operations, long-term indebtedness and the issuance of shares of our Company.

Sources and Uses of Cash. The following table summarizes the sources and uses of cash for the years in the periods ended December 31, 2010, 2009 and 2008, from our consolidated statements of cash flows:

[Table of Contents](#)**Principal Sources and Uses of Cash****Years ended December 31, 2010, 2009 and 2008****(in millions of Mexican pesos)**

	2010		2009		2008
Net cash flows from operating activities	Ps. 14,350		Ps. 16,663		Ps. 11,901
Net cash flows used in investing activities ⁽¹⁾	(6,845)		(8,900)		(7,299)
Net cash flows used in financing activities ⁽²⁾	(2,011)		(6,029)		(5,261)
Dividends declared and paid	(2,612)		(1,344)		(945)

- (1) Includes property, plant and equipment, investment in shares and other assets.
- (2) Includes dividends declared and paid.

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2010:

	Maturity (in millions of Mexican pesos)				
	Less than	In excess			Total
	1 year	1-3 years	4 –5 years	of 5 years	
Debt⁽¹⁾					
	Ps.	Ps.	Ps.	Ps.	Ps.
Mexican pesos	—	4,726	2,824	—	7,550
U.S. dollars	—	222	—	6,179	6,401
Brazilian reais	—	25	20	35	81
Colombian pesos	1,227	839	—	—	2,066
Argentine pesos	569	622	—	—	1,190
Capital Leases					
U.S. dollars	4	—	—	—	4
Brazilian reais	40	15	4	—	59
Interest Payments on Debt⁽²⁾					
Mexican pesos	377	670	68	—	1,115
U.S. dollars	287	859	572	893	2,611
Brazilian reais	5	14	8	13	40
Colombian pesos	73	21	—	—	94
Argentine pesos	135	37	—	—	172
Interest Rate Swaps⁽³⁾					
Mexican pesos float to fixed	—	(111)	(152)	—	(263)
Cross Currency Swaps⁽⁴⁾					
Mexican pesos to U.S. dollars ⁽⁵⁾	(147)	(73)	—	—	(220)
Forwards⁽⁶⁾					
U.S. dollars to Mexican pesos	(16)	—	—	—	(16)
Operating Leases					
Mexican pesos	226	522	138	566	1,452
U.S. dollars	25	39	—	—	64
Commodity Hedge Contracts					
Sugar ⁽⁷⁾	430	15	—	—	445
Expected Benefits to be Paid for Pension and Retirement Plans and Seniority Premium	186	276	99	716	1,277
Other Long-Term Liabilities⁽⁸⁾	—	—	—	—	—

- (1) Excludes the effect of cross currency swaps.
- (2) Interest was calculated using debt as of and nominal interest rate amounts in effect on December 31, 2010. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 12.3571 per U.S. dollar, the exchange rate reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2010.
- (3) Reflects the market value as of December 31, 2010 of interest rates swaps that are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2010.
- (4) Includes cross currency swap contracts held as of December 31, 2010. U.S. dollar denominated amounts were translated to Mexican pesos as described in footnote (2) above. The amounts shown in the table are fair value figures as of December 31, 2010.
- (5) Cross currency swaps used to convert Mexican peso denominated floating rate debt into U.S. dollar denominated floating rate debt with a notional amount of Ps. 166 million with maturity date as of September 16, 2011, Ps. 328 million with maturity date as of December 2, 2011, Ps. 824 million with maturity date as of December 5, 2011 and Ps. 357 million with maturity date as of March 2, 2012. These cross-currency swaps are not considered hedges for accounting purposes.

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(6) Reflects the market value as of December 31, 2010 of forward derivative instruments used to hedge against Mexican peso fluctuation. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2010.

(7) Reflects the market value as of December 31, 2010 of futures contracts used to hedge sugar cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2010.

(8) 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 our company and its subsidiaries by currency and interest rate type as of December 31, 2010:

Currency	Percentage of Total Debt⁽¹⁾	Average Nominal Rate⁽²⁾	Average Adjusted Rate⁽¹⁾⁽³⁾
Mexican pesos	33.5%	6.5%	6.5%
U.S. dollars	47.4%	3.2%	3.4%
Colombian pesos	11.8%	4.6%	4.6%
Brazilian reais	0.6%	4.5%	4.5%
Argentine pesos	6.8%	17.8%	17.8%

- (1) Includes the effect of derivative contracts held by us as of December 31, 2010, including cross currency swaps from Mexican pesos to U.S. dollars and U.S. dollar.
- (2) Annual weighted average interest rate per currency as of December 31, 2010.
- (3) Annual weighted average interest rate per currency as of December 31, 2010 after giving effect to interest rate swaps and cross currency 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 May 31, 2011:

Mexican Peso-Denominated Bonds (Certificados Bursátiles). On April 18, 2011, we issued *certificados bursátiles* guaranteed by Propimex, S.A. de C.V., our main operating subsidiary in Mexico, in 5-year floating rate and 10-year fixed rate tranches of Ps. 2,500 million each, priced at TIIE + 0.13% and 8.27%, respectively. We have the following *certificados bursátiles* outstanding in the Mexican securities markets:

Issue Date	Maturity	Amount	Rate
2007	March 2, 2012	Ps. 3,000 million	28-day TIIE ⁽¹⁾ – 6 bps
2011	April 11, 2016	Ps. 2,500 million	28-day TIIE ⁽¹⁾ + 13 bps
2011	April 5, 2021	Ps. 2,500 million	8.27%

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

Our *certificados bursátiles* contain reporting obligations in which we will furnish to the bondholders consolidated audited annual financial reports and consolidated quarterly financial reports.

4.625% Notes due 2020. On February 5, 2010, we issued 4.625% Senior Notes due on February 15, 2020, in an aggregate principal amount of US\$ 500 million. The indenture imposes certain conditions upon a consolidation or merger by us and restricts the incurrence of liens and sale and leaseback transactions by us or our significant subsidiaries. Propimex guaranteed these notes on April 1, 2011.

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Bank Loans. As of December 31, 2010, we had a number of loans with individual banks in Mexican pesos, U.S. dollars, Colombian pesos, Brazilian reais, and Argentine pesos, with an aggregate principal amount of Ps. 8,129 million. The bank loans denominated in Mexican pesos and U.S. dollars guaranteed by Propimex contain restrictions on liens, fundamental changes such as mergers and sale of certain assets. In addition, we are required to comply with a maximum net leverage ratio. Finally, some of our bank loans include a mandatory prepayment clause in which the lender has the option to require us to prepay such loans upon a change of control.

We are in compliance with all of our restrictive covenants as of the date of filing of this annual report. A significant and prolonged deterioration in our consolidated results from 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 material off-balance sheet arrangements.

Contingencies

We are party to a number of tax, legal and labor proceedings that have arisen throughout the normal course of our business and which are common in the industry in which we operate.

We recognize a liability for a loss contingency when it is probable that certain effects related to past events would materialize and can be reasonably quantified. The following table presents in millions of Mexican pesos the nature and amount of the recorded loss contingencies as of December 31, 2010:

	Long-Term	
Tax	Ps.	799
Legal		1,133
Labor		220
Total	Ps.	2,152

We do not recognize an asset as a contingency gain until the gain is realized. When the risk of loss is deemed to be other than remote, but less than probable, according to a legal assessment, its financial impact is disclosed as loss contingencies in the notes of the consolidated financial statements. The estimated amount of the damages sought in these proceedings is Ps. 5,767 million.

In recent years, our Mexican, Costa Rican and Brazilian subsidiaries have been required to submit certain information to relevant authorities regarding possible monopolistic practices. We currently do not have any pending investigations in Mexico. See “Item 8. Financial Information—Legal Proceedings—Mexico—Antitrust Matters.” Such proceedings are a normal occurrence in the beverage industry and we do not expect any significant liability to arise from these contingencies.

As is customary in Brazil, we have been required by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 2,292 million and Ps. 2,342 million as of December 31, 2010 and 2009, respectively, by pledging fixed assets, or providing bank guarantees.

In connection with certain past business combinations, we have been indemnified by the sellers for certain contingencies.

Capital Expenditures

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

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	2010	Year Ended December 31, 2009	2008
	(millions of Mexican pesos)		
Property, plant and equipment, deferred charges and other investments	Ps. 7,478	Ps. 6,282	Ps. 4,802

	2010	Year Ended December 31, 2009	2008
	(millions of Mexican pesos)		
Mexico	Ps. 2,932	Ps. 2,710	Ps. 1,926
Latincentro ⁽¹⁾	1,731	1,269	1,209
Venezuela	504	1,248	715
Mercosur ⁽²⁾	2,311	1,055	952
Total	Ps. 7,478	Ps. 6,282	Ps. 4,802

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

In 2010, we focused our capital expenditures on investments in (1) increasing production capacity, (2) placing coolers with retailers, (3) returnable bottles and cases, (4) improving the efficiency of our distribution infrastructure and (5) information technology. Through these measures, we strive to improve our profit margins and overall profitability.

We have budgeted approximately US\$600 million for our capital expenditures in 2011. Our capital expenditures in 2011 are primarily intended for:

- investments in production capacity;
- market investments (primarily for the placement of coolers);
- returnable bottles and cases;
- improvements throughout our distribution network; and
- investments in information technology.

We estimate that of our projected capital expenditures for 2011, approximately 33% will be for our Mexican territories and the remaining will be for our non-Mexican territories. We believe that internally generated funds will be sufficient to meet our budgeted capital expenditure for 2011. Our capital expenditure plan for 2011 may change based on market and other conditions and our results from operations and financial resources.

Historically, The Coca-Cola Company has contributed resources in addition to our own capital expenditures. We generally utilize these contributions for initiatives that promote volume growth of *Coca-Cola* trademark beverages, including the placement of coolers with retailers. Such payments may result in a reduction in our selling expenses line. 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 based on past practice and the benefits to The Coca-Cola Company as owner of the *Coca-Cola* brands from investments that support the strength of the brands in our territories, 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 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, 2010. The fair market value is estimated using market prices that would apply to terminate the contracts at the end of the period and are confirmed by external sources, which are also our counterparties to the relevant contracts.

	Fair Value				Total fair value
	At December 31, 2010				
	Maturity less than 1 year	Maturity 1 – 3 years	Maturity 4 – 5 years	Maturity in excess of 5 years	
	(millions of Mexican pesos)				
Interest Rate Swaps					
Mexican pesos float to fixed	—	(111)	(152)	—	(263)
Cross Currency Swaps					
Mexican pesos to U.S. Dollars	(147)	(73)	—	—	(220)
Forwards					
U.S. dollars to Mexican pesos	(16)	—	—	—	(16)
Commodity Hedge Contracts					
Sugar	430	15	—	—	445

U.S. GAAP Reconciliation

The principal differences between Mexican Financial Reporting Standards and U.S. GAAP that affect our net income and equity are explained in Note 26 to our consolidated financial statements and primarily relate to the accounting and disclosure for:

- reversal of inflationary adjustments in countries considered inflationary under Mexican FRS, but not considered hyper-inflationary under U.S. GAAP;
- certain balance sheet and income statement classification differences;
- deferred promotional expenses;
- intangible assets;
- restatement of imported equipment;
- capitalization of comprehensive financing result;

- disclosures related to the fair value of financial instruments;
- accounting and disclosures for deferred income tax, employee profit sharing and uncertain tax positions;
- employee benefits;
- non-controlling interest acquisition; and

- presentment aspects of statement of cash flows.

A more detailed description of the differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us and a reconciliation of net income and shareholders' equity under Mexican Financial Reporting Standards to net income and equity under U.S. GAAP are contained in Notes 26 and 27 to our consolidated financial statements.

Pursuant to Mexican Financial Reporting Standards, our consolidated financial statements recognize effects of inflation in accordance with Bulletin B-10. These effects were not reversed in the reconciliation to U.S. GAAP.

Under U.S. GAAP, we had consolidated net income of Ps. 10,105 million in 2010, Ps. 8,853 million in 2009 and Ps. 5,802 million in 2008. Consolidated net income as reconciled to U.S. GAAP was lower than consolidated net income as reported under Mexican Financial Reporting Standards by Ps. 194 million in 2010, Ps. 117 million in 2009 and lower by Ps. 24 million in 2008.

Equity under U.S. GAAP was Ps. 73,468 million, Ps. 66,037 million and Ps. 56,468 million in 2010, 2009, and 2008, respectively. Compared to shareholders' equity under Mexican Financial Reporting Standards, equity under U.S. GAAP was lower by Ps. 413 million, Ps. 2,435 million and Ps. 1,148 million in 2010, 2009 and 2008, respectively.

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

Management of our business is vested in our board of directors and in our chief executive officer. Our bylaws provide that our board of directors will consist of 18 directors elected at the annual ordinary shareholders meeting for renewable terms of one year. Our board of directors currently consists of 18 directors and 17 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.

In accordance with our bylaws and article 24 of the Mexican Securities Market Law, at least 25% of the members of our board of directors must be independent (as defined by the Mexican Securities Market Law). The board of directors may designate interim directors in the case that a director is absent or an elected director and corresponding alternate are unable to serve; the interim directors serve until the next shareholders meeting, at which the shareholders elect a replacement.

Our bylaws provide for the issuance of Series B Shares with full voting rights that are freely transferable, although no Series B Shares have been issued. Shareholders holding duly paid Series B Shares or any duly paid limited voting shares that did not vote in favor of the directors elected, either individually or acting together with other dissenting shareholders of any series, would be 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 and to remove one director and the corresponding alternate.

Our bylaws provide that the board of directors shall meet at least four times a year. Since our major shareholders amended their Shareholders Agreement in February 2010, our bylaws were modified accordingly establishing that actions by the board of directors must be approved by at least a majority of the directors present and voting, except under certain limited circumstances which must include the favorable vote of at least two directors elected by the Series D Shares. See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—The Shareholders Agreement.” The chairman of the board of directors, the chairman of our audit or Corporate Practices Committee, or at least 25% of our directors may call a board of directors’ meeting to include matters in the meeting agenda.

See “Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions” for information on relationships with certain directors and senior management.

As of the date of this annual report, our board of directors had the following members:

Series A Directors

<p>José Antonio Fernández Carbajal <i>Chairman</i></p>	<p>Born: February 1954</p> <p>First elected: 1993, as director; 2001 as chairman</p> <p>Term expires: 2012</p> <p>Principal occupation: Chief Executive Officer, FEMSA. Chairman of the board of directors of FEMSA. Vice-Chairman of the board of directors of Instituto Tecnológico de Estudios Superiores de Monterrey (ITESM). Member of the boards of directors of Grupo Financiero BBVA Bancomer (BBVA Bancomer); Industrias Peñoles, S.A.B. de C.V. (Peñoles); Grupo Industrial Bimbo, S.A.B. de C.V. (Bimbo); Grupo Televisa S.A.B. (Televisa); Controladora Vuela Compañía de Aviación, S.A. de C.V. (Volaris); and Cemex, S.A.B. de C.V. (Cemex).</p> <p>Other directorships:</p> <p>Business experience: Joined FEMSA's strategic planning department in 1987; held managerial positions at FEMSA Cerveza's Commercial Division and the Oxxo Retail Chain. Appointed Chief Executive Officer of FEMSA in 1995.</p> <p>Education: Holds a degree in Industrial Engineering and a Masters in Business Administration (MBA) from ITESM.</p> <p>Alternate director: Alfredo Livas Cantú</p>
<p>Alfonso Garza Garza⁽¹⁾ <i>Director</i></p>	<p>Born: July 1962</p> <p>First elected: 1996</p> <p>Term expires: 2012</p> <p>Principal occupation: Chief Human Resources, Procurement and Information Technology Officer, FEMSA.</p> <p>Other directorships: Member of the board of ITESM and Nutec, S.A. de C.V. and Chairman of the Board of Coparmex Nuevo León. Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Empaques, S.A. de C.V., or FEMSA Empaques, and FEMSA Cerveza, and was Chief Executive Officer of FEMSA Empaques.</p> <p>Business experience: Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Empaques, S.A. de C.V., or FEMSA Empaques, and FEMSA Cerveza, and was Chief Executive Officer of FEMSA Empaques.</p> <p>Education: Holds a degree in Industrial Engineering from ITESM and an MBA from Instituto Panamericano de Alta Dirección de Empresa (IPADE).</p> <p>Alternate director: Bárbara Garza Lagüera Gonda⁽²⁾</p>
<p>José Luis Cutrale <i>Director</i></p>	<p>Born: September 1946</p> <p>First elected: 2004</p> <p>Term expires: 2012</p> <p>Principal occupation: Chief Executive Officer of Sucocítrico Cutrale.</p> <p>Other directorships:</p>

		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.
Carlos Salazar Lomelín <i>Director</i>	Born:	April 1951
	First elected:	2001
	Term expires:	2012
	Principal occupation:	Chief Executive Officer, Coca-Cola FEMSA.
	Other directorships:	Member of the board of directors of BBVA Bancomer, Bancomer, AFORE Bancomer, S.A. de C.V., Seguros Bancomer, S.A. de C.V. and member of the advisory board of Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), APEX, EGADE Business School from the ITESM and the Eugenio Garza Sada Award.
	Business experience:	Has held managerial positions within FEMSA, including Grafo Regia S.A. de C.V. and Plásticos Técnicos Mexicanos S.A. de C.V. 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 Economico Milano e Napoli and an MBA from ITESM.
	Alternate director:	Max Michel Suberville
Ricardo Guajardo Touché <i>Director</i>	Born:	May 1948
	First elected:	1993
	Term expires:	2012
	Principal occupation:	President of SOLFI, S.A.
	Other directorships:	Member of the boards of directors of Valores de Monterrey, S.A. de C.V. (Valores de Monterrey), BBVA Bancomer, Bimbo, El Puerto de Liverpool, Grupo Industrial Alfa (Alfa), Grupo Aeroportuario del Sureste, S.A. de C.V. (ASUR), Grupo Coppel and FEMSA.
	Business experience:	Has held senior executive positions in FEMSA, Grupo AXA, S.A. de C.V. (Grupo AXA) and Valores de Monterrey.
	Education:	Holds degrees in Electrical Engineering from ITESM and the University of Wisconsin and a Masters degree from the University of California, Berkeley.
	Alternate director:	Eduardo Padilla Silva

Series A Directors

Paulina Garza Lagüera Gonda ⁽²⁾ <i>Director</i>	Born:	March 1972
	First elected:	2009
	Term expires:	2012
	Business experience:	Private investor
	Other directorships:	Alternate director of the board of directors of FEMSA.
	Education:	Holds a Business Administration degree from ITESM.
	Alternate director:	Mariana Garza Lagüera Gonda ⁽²⁾
Federico Reyes García <i>Director</i>	Born:	September 1945
	First elected:	1993
	Term expires:	2012
	Principal occupation:	Corporate Development Officer of FEMSA.
	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 Chairman of the board of directors of Valores de Monterrey. Has extensive experience in the insurance sector.
	Education:	Holds a degree in Business and Finance from ITESM.
	Alternate director:	Alejandro Bailleres Gual
Javier Gerardo Astaburuaga Sanjines <i>Director</i>	Born:	July 1959
	First elected:	2006
	Term expires:	2012
	Principal occupation:	Chief Financial and Strategic Development Officer 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 Director of Sales for the north region of Mexico. Prior to his current position, was FEMSA Cerveza's Co-Chief Executive Officer.
	Other directorships:	Member of the board of Heineken N.V. and supervisory board of Heineken N.V.
	Education:	Holds a degree in Accounting from ITESM.
	Alternate director:	Francisco José Calderón Rojas
Alfonso González Migoya <i>Independent Director</i>	Born:	January 1945
	First elected:	2006
	Term expires:	2012
	Principal occupation:	Chairman of the board of directors and Chief Executive Officer of Grupo Industrial Saltillo, S.A.B. de C.V.

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Daniel Servitje Montull <i>Independent Director</i>	Other directorships: Business experience: Education: Alternate director: Born: First elected: Term expires: Principal occupation: Other directorships: Business experience: Education: Alternate director:	Member of the board of directors of several Mexican companies, including Banco Regional de Monterrey, S.A., Bolsa Mexicana de Valores, S.A.B. de C.V. and Berel, S.A. Served from 1995 until 2005 as Corporate Director of Alfa. Holds a degree in Mechanical Engineering from ITESM and an MBA from the Stanford Graduate School of Business. Francisco Garza Zambrano April 1959 1998 2012 Chief Executive Officer, Bimbo. Member of the boards of directors of Banco Nacional de Mexico and Bimbo. Served as Vice President of Bimbo. Holds a degree in Business from the Universidad Iberoamericana in Mexico and an MBA from the Stanford Graduate School of Business. Sergio Deschamps Ebergenyi
Enrique F. Senior Hernández <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorship: Business experience: Alternate director:	August 1943 2004 2012 Managing Director of Allen & Company. Member of the boards of directors of Televisa and Cinemark Corp. Among other clients, has provided financial advisory services to FEMSA and Coca-Cola FEMSA. Herbert Allen III

Series D Directors

Gary Fayard <i>Director</i>	Born:	April 1952
	First elected:	2003
	Term expires:	2012
	Principal occupation:	Chief Financial Officer, The Coca-Cola Company.
	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 degree from the University of Alabama and is licensed as a Certified Public Accountant (CPA).
	Alternate director:	Marie Quintero-Johnson
Irial Finan <i>Director</i>	Born:	June 1957
	First elected:	2004
	Term expires:	2012
	Principal occupation:	President of Bottling Investments Group and Supply Chain, The Coca-Cola Company.
	Other directorships:	Member of the boards of directors of Coca-Cola Enterprises, Coca-Cola Amatil and Coca-Cola Hellenic.
	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>Independent Director</i>	Born:	January 1939
	First elected:	1998
	Term expires:	2012
	Principal occupation:	Trustee, Robert W. Woodruff Foundation.
	Other directorships:	Member of the boards of directors of AGL Resources.
	Business experience:	Served as a President of Robert W. Woodruff Foundation during the period 1971-2007 and on the board of directors of nine U.S. Coca-Cola bottling companies in the 1970s and 1980s.
	Education:	Holds a degree in Business Administration from Emory University.
Eva María Garza Lagüera Gonda ⁽³⁾ <i>Director</i>	Born:	April 1958
	First elected:	2011
	Term expires:	2012
	Principal occupation:	Private Investor
	Other directorships:	Member of the boards of directors of FEMSA, ITESM and Premio Eugenio Garza Sada
	Education:	Holds a degree in Communication Sciences from ITESM
	Alternate director:	Geoffrey J. Kelly

Series L Directors

Alexis E. Rovzar de la Torre <i>Independent Director</i>	Born:	July 1951
	First elected:	1993
	Term expires:	2012
	Principal occupation:	Executive partner, White & Case, S.C.
	Other directorships:	Member of the boards of directors of FEMSA (chairman of its audit committee), Bank of Nova Scotia, Bimbo, Grupo Comex and Grupo ACIR.
	Business experience:	Expert in private and public mergers and acquisitions as well as other aspects of financial law and has been advisor to many companies on international business and joint venture transactions.
	Education:	Holds a Law degree from Universidad Nacional Autónoma de México (UNAM).
José Manuel Canal Hernando <i>Independent Director</i>	Alternate director:	Arturo Estrada Treanor
	Born:	February 1940
	First elected:	2003
	Term expires:	2012
	Principal occupation:	Private consultant.
	Other directorships:	Member of the board of directors of FEMSA, BBVA Bancomer, Banco Compartamos, S.A., ALSEA, S.A.B. de C.V., Kuo, Consorcio Comex and Grupo Proa.
	Business experience:	Former managing partner at Ruiz, Urquiza y Cía, S.C. from 1981 to 1999, acted as our statutory examiner from 1984 to 2002, presided in the Committee of Surveillance of the Mexican Institute of Finance Executives, has participated in several commissions at the Mexican Institute of Public Accountants and has extensive experience in financial auditing for holding companies, banks and financial brokers.
	Education:	Holds a Public Accounting degree from UNAM.
Francisco Zambrano Rodríguez <i>Independent Director</i>	Alternate director:	Helmut Paul
	Born:	January 1953
	First elected:	2003
	Term expires:	2012
	Principal occupation:	Chief Executive Officer of Desarrollo de Fondos Inmobiliarios S.A. de C.V. (DFI) and Vice-president of Desarrollo Inmobiliarios y de Valores, S.A. de C.V. (DIV).
	Other directorships:	Member of the boards of directors of several Mexican companies, including DFI, DIV and Grupo Camino Real, S.A. de C.V.
	Business experience:	Has extensive experience in investment banking and private investment services in México.
	Education:	

Alternate director: Karl Frei Buechi
Holds a degree in Chemical Engineering from ITESM and an MBA from The University of Texas at Austin.

- (1) Cousin of Eva María Garza Lagüera Gonda, Paulina Garza Lagüera Gonda, Mariana Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda.
- (2) Sister of Eva Maria Garza Lagüera Gonda and sister-in-law of José Antonio Fernández Carbajal.
- (3) Wife of José Antonio Fernández Carbajal.

The secretary of the board of directors is Carlos Eduardo Aldrete Ancira and the alternate secretary of the board of directors is Carlos Luis Díaz Sáenz.

In June 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 approximately 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.

Executive Officers

The following are the principal executive officers of our company:

Carlos Salazar Lomelín ⁽¹⁾ <i>Chief Executive Officer</i>	Born:	April 1951
	Joined:	2000
	Appointed to current position:	2000
Héctor Treviño Gutiérrez <i>Chief Financial and Administrative Officer</i>	Born:	August 1956
	Joined:	1993
	Appointed to current position:	1993
	Other business experience:	At FEMSA, was in charge of International Financing, served as General Manager of Financial Planning, General Manager of Strategic Planning and General Manager of Business Development and headed the Corporate Development Department.
	Education:	Holds a degree in Chemical and Administrative Engineering from ITESM and an MBA from the Wharton School of Business.
Rafael Alberto Suárez Olaguibel <i>Chief Operating Officer – Latincentro</i>	Born:	April 1960
	Joined:	1986
	Appointed to current position:	2007
	Business experience with us:	Has held several director positions with us, including Commercial Planning and Strategic Development Officer and Chief Operating Officer in Mexico and Argentina. Also served as Distribution and Marketing Director for the Valley of Mexico and Corporate Planning Manager of FEMSA’s sparkling beverages division.
	Other business experience:	Has worked in the Administrative, Distribution and Marketing departments of The Coca-Cola Export Company.
	Education:	Holds a degree in Economics from ITESM and an MBA-ONE from ITESM and the partner schools from each continent.
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:	

<p>Eulalio Cerda Delgadillo <i>Human Resources Officer</i></p>	<p>Born: July 1958</p> <p>Joined: 1996</p> <p>Appointed to current position: 2001</p> <p>Business experience with us: Manager, positions in several departments, including maintenance, projects, packaging and human resources.</p> <p>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.</p> <p>Education: Holds a degree in Mechanical Engineering from ITESM.</p>
<p>John Anthony Santa María Otazúa <i>Commercial Planning and Strategic Development Officer</i></p>	<p>Born: August 1957</p> <p>Joined: 1995</p> <p>Appointed to current position: 2009</p> <p>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 company, namely development of new products and mergers and acquisitions.</p> <p>Other business experience: Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management.</p> <p>Education: Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University.</p>

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Ernesto Silva Almaguer <i>Chief Operating Officer – Mexico</i>	Born:	March 1953
	Joined:	1996
	Appointed to current position:	2009
	Business experience with us:	Has served as Chief Operating Officer –Mercosur in Buenos Aires and New Business Development and Information Technology Director.
	Other business experience:	Has worked as General Director of packaging subsidiaries of FEMSA (Fábricas de Monterrey, S.A. de C.V. and Quimiproductos), served as Vice President of International Sales at FEMSA Empaques and Manager of FEMSA’s Corporate Planning and held several positions at Alfa.
	Education:	Holds a degree in Mechanical and Administrative Engineering from Universidad Autónoma de Nuevo León and an MBA from The University of Texas at Austin.
Miguel Angel Peirano <i>Chief Operating Officer – Mercosur</i>	Born:	March 1959
	Joined:	1997
	Appointed to current position:	2009
	Business experience with us:	Strategic Planning Officer-Argentina, Manufacturing Officer-Argentina, Commercial Officer-Argentina and Chief Operating Officer-Argentina.
	Other business experience:	Chief Operating Officer in FEMSA Cerveza Brazil and Senior Project Manager / Associate at McKinsey & Co.
	Education:	Holds a degree in Electronic Engineering from the Technological Institute of Buenos Aires, holds the McKinsey MBA and completed the General Manager Program at Harvard Business School.
Hermilo Zuart Ruíz <i>Strategic Supply Officer</i>	Born:	March 1949
	Joined:	1992
	Appointed to current position:	2010
	Business experience with us:	Former New Business Officer, Chief Operating Officer in the Latincentro division, Chief Operating Officer in the Valley of Mexico and Chief Operating Officer in the Southeast Mexico.
	Other business experience:	Has undertaken several responsibilities in the manufacturing, commercialization, planning and administrative areas of FEMSA:

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	Education:	Franquicias Officer, mainly in charge of Mundet products. Holds a degree in Public Accounting from UNAM and completed a graduate course in Business Management from IPADE.
Juan Ramón Felix <i>New Business Officer</i>	Born:	December 1961
	Joined:	1997
	Appointed to current position:	2010
	Business experience with us:	Former Commercial Director in Mexico, Commercial Development Director in Brazil, Commercial Director for the Bajío division in Mexico, Commercial Director for the southeast in Mexico, Logistics Director and Sales Manager of the Valley of Mexico.
	Other business experience:	Has worked as the Franchises Director at Cadbury Beverages, several positions in sales and operating areas in Cadbury Aguas Minerales and MFG Supervisor at Procter & Gamble.
	Education:	Holds a degree in Industrial and Systems Engineering from ITESM and an MBA from The Garvin School of International Management/ITESM.

(1) See “—Directors.”

Compensation of Directors and Officers

For the year ended December 31, 2010, the aggregate compensation of all of our executive officers paid or accrued for services in all capacities was approximately Ps. 217 million. The aggregate compensation amount includes approximately Ps. 127 million of cash bonus awards and bonuses paid to certain of our executive officers pursuant to our incentive plan for stock purchases. See “—EVA-Based Bonus Program.”

The aggregate compensation for directors during 2010 was Ps. 9 million. For each meeting attended we paid US\$ 10,000 to each director with foreign residence and US\$ 6,500 to each director with residence in Mexico in 2010. We paid US\$ 3,500 to each of the members of the Audit Committee per each meeting attended, and we paid US\$ 2,500 per meeting attended to each of the members of the Finance and Planning and the Corporate Practices Committees.

Our senior management and executive officers participate in our benefit plans 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, 2010, amounts accrued for all employees under these pension and retirement plans were Ps. 1,636 million, of which Ps. 774 million is already funded.

EVA-Based Bonus Program

Our bonus program for executives is based on meeting certain goals established annually by management, which include quantitative and qualitative objectives as well as the completion of special projects.

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Approximately 50% of the bonus is based on quantitative objectives determined by the Economic Value Added, or EVA, methodology. The objectives established for executives are based on a combination of the EVA generated by us and FEMSA on a consolidated basis, calculated at approximately 70% and 30%, respectively. 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, we provide a defined contribution plan of share compensation to certain key executives, consisting of an annual cash bonus to purchase FEMSA and our Company's shares or options, based on the executive's responsibility in the organization, the EVA result achieved by the business unit that the executive works within, and the executive's individual performance. The acquired shares or options are deposited in a trust, and executives may access them one year after they are vested at 20% per year. Fifty percent of our annual executive bonus is permitted to be used to purchase FEMSA shares or options and the remaining 50% to purchase our shares or options. As of December 31, 2010, 2009 and 2008, no options have been granted to employees.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of the completion of goals established each year. The bonuses are recorded as income from operations and are paid in cash for the acquisition of shares of the trust the following year. During the years ended December 31, 2010, 2009 and 2008, the bonus expense recorded amounted to Ps. 547 million, Ps. 630 million and Ps.525 million, respectively.

Share Ownership

As of April 25, 2011, 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 74.86% of the voting stock of FEMSA, which in turn owns 53.7% 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 Marroquín, Bárbara Garza Gonda 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 was a trust participant and technical committee member before he passed away in May 2008. 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 to discuss our operating results and progress in achieving strategic objectives. It is the practice of our board of directors to meet following the end of each quarter. 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 for up to 30 days until successors are appointed. If no successor is appointed during this period, the board of directors may appoint interim members, which will be ratified or substituted at the next shareholders meeting after such event occurs. None of the members of our board of directors 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:

Finance and Planning Committee. The Finance and Planning Committee works with 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 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. Irial Finan is the chairman of the Finance and Planning Committee. The additional members include: Javier Astaburuaga Sanjines, Federico Reyes García, Ricardo Guajardo Touché and Enrique Senior Hernández. The secretary of the Finance and Planning Committee is Héctor Treviño Gutiérrez, our Chief Financial Officer.

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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 internal auditing function also reports 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 chairman of the Audit Committee. The additional members are: Alfonso González Migoya, Charles H. McTier, José Manuel Canal Hernando, who is our “audit committee financial expert” within the meaning of Item 16A, 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, who is not a member, is José González Ornelas, head of FEMSA’s auditing and operating control area.

Corporate Practices Committee. The Corporate Practices Committee, which consists of exclusively of independent directors, is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders meeting and include matters on the agenda for that meeting that it deems appropriate, approve policies on related party transactions, approve the compensation plan of the chief executive officer and relevant officers, and support our board of directors in the elaboration of related reports. The chairman of the Corporate Practices Committee is Daniel Servitje Montul. The additional members include: Helmut Paul and Karl Frei Buechi. The secretaries of the Corporate Practices Committee are Gary Fayard and Alfonso Garza Garza.

Employees

As of December 31, 2010, our headcount was as follows: 28,726 in Mexico, 13,246 in Latincentro, 8,123 in Venezuela and 18,354 in Mercosur. In the headcount we include the employees of third party distributors. The table below sets forth headcount by category for the periods indicated:

	As of December 31,		
	2010	2009	2008
Executives	759	708	514
Non-union	18,017	17,633	16,262
Union	33,085	31,692	30,177
Employees of third party distributors	17,347	17,393	18,068
Total	69,208	67,426	65,021

As of December 31, 2010, approximately 48% of our employees, most of whom were employed in Mexico, were members of labor unions. We had 112 separate collective bargaining agreements with 67 labor unions. In general, we have a good relationship with the labor unions throughout our operations, except in Colombia, Venezuela and

Guatemala, which are or have been the subjects of significant labor-related litigation. See “Item 8. Financial Information—Consolidated Statements and Other Financial Information” and “Item 8. 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.

During January 2011, our production and distribution facility in Valencia, which produces approximately 50% of the total sales volume in Venezuela, went on strike for 26 days, completely halting production. Productivity resumed when a final agreement was reached with the union that resulted in additional expenses for our Venezuelan subsidiary through increases in wages and expenditures associated with improving work conditions for employees.

Insurance Policies

We maintain a number of different types of 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 May 31, 2011:

Owner	Outstanding Capital Stock	Percentage Ownership of Outstanding Capital Stock	Percentage of Voting Rights
FEMSA (Series A Shares) ⁽¹⁾	992,078,519	53.7%	63.0%
The Coca-Cola Company (Series D Shares) ⁽²⁾	583,545,678	31.6%	37.0%
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. 74.86% 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 voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power of the shares deposited in the voting trust: BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/25078-7 (controlled by Max Michel Suberville), Paulina Garza Lagüera Gonda, Bárbara Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Eva Gonda Rivera, Eva Maria Garza Lagüera Gonda, Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Patricio Garza Garza, Juan Carlos Garza Garza, Eduardo Garza Garza, Eugenio Garza Garza, Alberto Bailleres Gonzalez, Maria Teresa Gual Aspe de Bailleres, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), 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 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 José Calderón Rojas), BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David) and BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard).

(2) The Coca-Cola Company indirectly owns these shares through its wholly-owned subsidiaries, The Inmex Corporation and Dulux CBAI 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

depository, as to the exercise of the limited voting rights pertaining to the Series L Shares underlying their ADSs.

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, 2010, there were 22,382,439 of our ADSs outstanding, each ADS representing ten Series L Shares. 82.6% of our outstanding Series L Shares were represented by ADSs. As of May 31, 2011, 78.5% of our outstanding Series L Shares were represented by ADSs, held by 365 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.

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In February 2010, our main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and our bylaws were amended accordingly. The amendment mainly relates to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which now may be taken by the board of directors by simple majority voting. Also, the amendment provides that payment of dividends, up to an amount equivalent to 20% of the preceding years' retained earnings, may be approved by a simple majority of the shareholders. Any decision on extraordinary matters, as they are defined by our bylaws and which include any new business acquisition, business combinations or any change in the existing line of business, among other things, shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by The Coca-Cola Company. Also, any decision related to such extraordinary matters or any payment of dividends above 20% of the preceding years' retained earnings shall require the approval of a majority of shareholders of each of Series A and Series D Shares voting together as a single class.

Under our bylaws and shareholders agreement, our Series A Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by our shareholders.

The shareholders agreement also sets forth the principal shareholders' understanding as to the effect of adverse actions of The Coca-Cola Company under the bottler agreements. Our bylaws and shareholders agreement 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, as defined in our bylaws, 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, to the extent the presence and approval of at least two Series D directors would otherwise be required, 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 events of default.

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 special-majority voting and quorum requirements, after which the shareholders agreement would terminate.

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 in 2003, 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. We believe the memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The terms are as follows:

- The shareholder arrangements between directly wholly owned subsidiaries of FEMSA and The Coca-Cola Company will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. See “—The Shareholders Agreement.”
- FEMSA will continue to consolidate our financial results under Mexican Financial Reporting Standards.
- 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 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. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Brazil beginning in 2006 and in Mexico beginning in 2007. These increases were fully implemented in Brazil 2008 and in Mexico in 2009.
- 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. We currently believe the likelihood of this term applying is remote.
- FEMSA, The Coca-Cola Company and us will meet to discuss the optimal Latin American territorial configuration for the *Coca-Cola* bottler system. During these meetings, 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 sparkling beverages 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 agreed to 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). As a result of this understanding, in November 2006, FEMSA acquired, through a subsidiary, 148,000,000 of our Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8.02%

of the total outstanding equity of Coca-Cola FEMSA, at a price of US\$ 2.888 per share for an aggregate amount of US\$ 427.4 million. Pursuant to our bylaws, the acquired shares were converted from Series D Shares to Series A Shares.

- 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 in December 2003, with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

Cooperation Framework with The Coca-Cola Company

In September 2006, The Coca-Cola Company and we reached at a comprehensive cooperation framework for a new stage of collaboration going forward. This new framework includes the main aspects of our relationship with The Coca-Cola Company and defines the terms for the new collaborative business model. The framework is structured around three main objectives, which have been implemented as outlined below:

- **Sustainable growth of sparkling beverages, still beverages and waters:** Together with The Coca-Cola Company, we have defined a platform to jointly pursue incremental growth in the sparkling beverages category, as well as accelerated development of still beverages and waters across Latin America. To this end, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase for marketing support of the entire portfolio. In addition, the framework contemplates a new, all-encompassing business model for the development, organically and through acquisitions, of still beverages and waters that further aligns our and The Coca-Cola Company's objectives and should contribute to incremental long-term value creation for both companies. With this objective in mind, we have jointly acquired the Brisa bottled water business in Colombia, we have formalized a joint venture regarding the *Jugos del Valle* products in Mexico and Brazil and we have formalized our agreements to jointly develop the *Crystal* water business in Brazil, the Matte Leao business in Brazil jointly with other bottlers and the business of Grupo Estrella Azul in Panama.
- **Our horizontal growth:** The framework includes The Coca-Cola Company's endorsement of our aspiration to continue being a leading participant in the consolidation of the Coca-Cola system in Latin America, as well as our exploration of potential opportunities in other markets where our operating model and strong execution capabilities could be leveraged. For example, in 2008 we entered into a transaction with The Coca-Cola Company to acquire from it, REMIL, which was The Coca-Cola Company's wholly owned bottling franchise in the majority of the State of Minas Gerais of Brazil.
- **Long-term vision in relationship economics:** We and The Coca-Cola Company understand each other's business objectives and growth plans, and the new framework provides long-term perspective on the economics of our relationship. This will allow us and The Coca-Cola Company to focus on continuing to drive the business forward and generating profitable growth.

RELATED PARTY TRANSACTIONS

We believe that our transactions with related party transactions are on terms comparable to those that would result from arm's length negotiations with unaffiliated parties and are reviewed and approved by our Corporate Practices Committee.

FEMSA

We regularly engage in transactions with FEMSA and its subsidiaries.

We sell our products to certain FEMSA subsidiaries, substantially all of which consists of our sales to a chain of convenience stores under the name Oxxo. The aggregate amount of these sales to Oxxo was Ps. 1,623 million, Ps. 1,263 million and Ps. 992 million in 2010, 2009 and 2008, respectively.

We also purchase products from FEMSA and its subsidiaries. The aggregate amount of these purchases was Ps. 5,412 million, Ps. 5,941 million and Ps. 5,010 million in 2010, 2009 and 2008, respectively. These amounts principally relate to raw materials, beer, assets and services provided to us by FEMSA. In January 2008, we renewed our service agreement with another subsidiary of FEMSA, which provides for the continued provision of administrative services relating to insurance, legal and tax advice, relations with governmental authorities and certain administrative and internal auditing services that it has been providing since June 1993. 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 November 2001, we entered into two franchise bottler agreements with Promotora de Marcas Nacionales, S.A. de C.V., 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. In September 2010, FEMSA sold the *Mundet* brand in Mexico to The Coca-Cola Company through The Coca-Cola Company's acquisition of 100% of the equity interest of Promotora de Marcas Nacionales, S.A. de C.V. We remain the licensee of the *Mundet* trademark under the license agreements with Promotora de Marcas Nacionales, S.A. de C.V. Both agreements are renewable for ten-year terms, subject to non-renewal by either party with notice to the other party. We recently expanded the territories covered by these agreements to certain of our operations outside of Mexico. We primarily purchase our glass bottles in Mexico from SIVESA, a wholly-owned subsidiary of FEMSA Cerveza, now Cuauhtémoc Moctezuma Holding, S.A. de C.V., currently a wholly-owned subsidiary of the Heineken Group. The aggregate amount of our purchases from SIVESA amounted to Ps. 304.5 million, Ps. 355.1 million and Ps. 408.5 million in 2010, 2009 and 2008, respectively. Finally, we sell and distribute the *Kaiser* brands of beer in our territories in Brazil. In January 2006, FEMSA Cerveza acquired a controlling stake in Cervejarias Kaiser. Since that time, we have distributed the *Kaiser* beer portfolio in our Brazilian territories, consistent with the arrangements between us and Cervejarias Kaiser in place prior to 2004. On April 30, 2010, the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group closed. We have agreed with Cervejarias Kaiser to continue to distribute and sell the *Kaiser* beer portfolio in our Brazilian territories through the 20-year term, consistent with arrangement in place since 2006.

FEMSA is also a party to the understandings we have with The Coca-Cola Company relating to specified operational and business issues. 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 its affiliates. We purchase all of our concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total expenses charged to us by The Coca-Cola Company for concentrates were approximately Ps. 19,371 million, Ps. 16,863 million and Ps. 13,518 million in 2010, 2009 and 2008, respectively. Our company and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to our coolers, and bottles and cases investment program. We received contributions to our marketing expenses and coolers, and bottles and cases investment program of Ps. 2,386 million, Ps. 1,945 million and Ps. 1,995 million in 2010, 2009 and 2008, respectively.

In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are licensed back to us by The Coca-Cola Company pursuant to our bottler agreements. The December 2007 transaction was valued at US\$ 48 million and the May 2008 transaction was valued at US\$ 16 million. We believe that both of these transactions were conducted on an arm's length basis. Revenues from the sale of proprietary brands realized in prior years in which we have a significant continuing involvement are deferred and amortized against the related costs of future sales over the estimated sales period. The balance to be amortized amounted to Ps. 547 million, Ps. 616 million and Ps. 571 million as of December 31, 2010, 2009 and 2008, respectively. The short-term portions to be amortized amounted to Ps. 276 million, Ps. 203 million and Ps. 139 million at December 31, 2010, 2009 and 2008, respectively. The short-term portions are included in other current liabilities. The long-term positions are included in other liabilities.

In Argentina, we purchase pre-formed plastic ingots, as well as returnable plastic bottles 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 November 2007, Administración and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In June 2008, Administración and Jugos del Valle (surviving company) were merged. Subsequently, we and The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle, through transactions completed during 2008. We hold an interest of approximately 20% in each of the Mexican and the Brazilian joint businesses. Jugos del Valle sells fruit juice-based beverages and fruit derivatives. We distribute the *Jugos del Valle* line of juice-based beverages in Brazil and our territories in Latincentro.

In February 2009, we acquired together with The Coca-Cola Company the Brisa bottled water business in Colombia from Bavaria, a subsidiary of SABMiller. We acquired the production assets and the rights to distribute in the territory, and The Coca-Cola Company acquired the *Brisa* brand. We and The Coca-Cola Company equally shared in paying the purchase price of US\$ 92 million. Following a transition period, in June 2009, we started to sell and distribute the *Brisa* portfolio of products in Colombia.

In May 2009, we completed a transaction to develop the *Crystal* trademark water business in Brazil jointly with The Coca-Cola Company.

In August 2010, we acquired from The Coca-Cola Company along with other Brazilian *Coca-Cola* bottlers the business operations of the *Matte Leao* tea brand. We currently have a 13.84% indirect interest in the *Matte Leao* business in Brazil.

In March 2011, we acquired together with The Coca-Cola Company, Grupo Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. We will continue to develop this business jointly with The Coca-Cola Company.

Associated Companies

We also regularly engage in transactions with companies in which we own an equity interest that are not affiliated with The Coca-Cola Company, as described under “—The Coca-Cola Company.” 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 sparkling beverages in cans from Industria Envasadora de Querétaro, S.A. de C.V., or IEQSA, in which we hold an equity interest of approximately 13.5%. We paid IEQSA Ps. 196 million, Ps. 208 million and Ps. 333 million in 2010, 2009 and 2008, respectively. IEQSA purchases aluminum cans from FEMSA. We also purchase sugar from Beta San Miguel S.A. de C.V., or Beta San Miguel, a sugar-cane producer in which we currently hold a 2.6% equity interest. We paid Ps. 1,307 million, Ps. 713 million and Ps. 687 million to Beta San Miguel in 2010, 2009 and 2008, respectively.

In Mexico, we participate with certain *Coca-Cola* bottlers in PROMESA, in which we hold a 5% interest. Through PROMESA, we purchase our cans for our Mexican operations, which are manufactured by Fábricas de Monterrey, S.A. de C.V., or FAMOSA, a wholly-owned subsidiary of FEMSA Cerveza, now Cuauhtémoc Moctezuma Holding, S.A. de C.V., currently a wholly-owned subsidiary of the Heineken Group. We purchased from PROMESA approximately Ps. 684 million, Ps. 783 million and Ps. 525 million in 2010, 2009, and 2008, respectively.

Other Related Party Transactions

José Antonio Fernández Carbajal, and Ricardo Guajardo Touché, who are directors of Coca-Cola FEMSA, are also members of the board of directors of *Instituto Tecnológico de Estudios Superiores de Monterrey*, or ITESM, a Mexican private university that routinely receives donations from us.

Allen & Company LLC provides investment banking services to us and our affiliates in the ordinary course of its business. Enrique Senior, one of our directors, is a Managing Director of Allen & Company LLC, and Herbert Allen III, an alternate director, is the president of Allen & Company LLC.

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

Item 8. Financial Information

CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Consolidated Financial Statements

See “Item 18. Financial Statements” beginning on page F-1.

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 from operations.

Mexico

Antitrust Matters. During 2000, the *Comisión Federal de Competencia* in Mexico (the Mexican Antitrust Commission, or CFC), pursuant to complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation (TCCEC) and its bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers. After the corresponding legal proceedings in 2008 in the *Tribunal Colegiado de Circuito* (Mexican federal court), a final adverse judgment was rendered against two out of our six Mexican subsidiaries involved, upholding a fine of approximately Ps.10.5 million imposed by CFC on each of the two subsidiaries and ordering the immediate suspension of such practices of alleged exclusivity arrangements and conditional dealing. The Mexican Supreme Court decided to resolve the proceedings with respect to the complaints against the remaining four subsidiaries, and on June 9, 2010, the Mexican Federal Court ordered the CFC to reconsider certain aspects of these proceedings. In March 2011, the CFC ruled in favor of our subsidiaries, on the grounds of insufficient evidence to prove individual and specific liability of our subsidiaries in the alleged antitrust violations. PepsiCo filed for an administrative recourse against the CFC’s resolution.

In February 2009, the CFC began a new investigation of alleged monopolistic practices consisting of sparkling beverage sales subject to exclusivity agreements and the granting of discounts and/or benefits in exchange for exclusivity arrangements with certain retailers. As part of this investigation, the CFC has been requiring several *Coca-Cola* bottlers in Mexico to deliver information regarding their commercial practices and we were required to do so in February 2010. In the event that the CFC finds evidence of monopolistic practices, it may begin administrative proceedings against the companies involved. We cannot determine the scope of the investigation at this time.

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 our subsidiary in Costa Rica engaged in monopolistic practices with respect to exclusivity arrangements, pricing and the sharing of coolers under certain limited circumstances and imposed a fine of US\$ 130,000 (approximately Ps. 1.5 million). Our appeal of the Costa Rican Antitrust Commission's ruling was dismissed. We have filed judicial proceedings challenging the ruling of the Costa Rican Antitrust Commission and the process is still pending in court. We believe that this matter will not have a material adverse effect on our financial condition or results from 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. The period for gathering of evidence ended in August 2008, and the final arguments have been filed. We expect that the maximum fine that could be imposed is US\$ 300,000 (approximately Ps. 3.5 million). We are waiting for the final resolution to be issued by the Costa Rican Antitrust Commission.

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. The plaintiffs alleged that the subsidiaries 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. In September 2006, the federal district court dismissed the complaint with respect to all claims. The plaintiffs appealed and in August 2009, the Appellate Court affirmed the decision in favor of our subsidiaries. The plaintiffs moved for a rehearing, and in September 2009, the rehearing motion was denied. Plaintiffs attempted to seek reconsideration *en banc*, but so far, the court has not considered it.

Venezuela

Tax Matters. In 1999, some of our Venezuelan subsidiaries received notice of indirect tax claims asserted by the Venezuelan tax authorities. These subsidiaries have taken the appropriate measures against these claims at the administrative level and filed appeals with the Venezuelan courts. The claims currently amount to approximately US\$ 21.1 million (approximately Ps. 250 million). We have 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. We do not believe that the ultimate resolution of these cases will have a material adverse effect on our financial condition or results from operations.

Brazil

Antitrust Matters. Several claims have been filed against us by private parties that allege anticompetitive practices by our Brazilian subsidiaries. The plaintiffs are Ragi (Dolly), a Brazilian producer of “B Brands,” and PepsiCo, alleging anticompetitive practices by Spal Indústria Brasileira de Bebidas S.A. and Recofarma Indústria do Amazonas Ltda. Of the four claims Dolly filed against us, the only one remaining concerns a denial of access to common suppliers. Of the two claims made by PepsiCo, the first concerns exclusivity arrangements at the point of sale, and the second is an alleged corporate espionage allegation against the *Pepsi* bottler, BAESA, which the Ministry of Economy recommended to be dismissed for lack of evidence. Under Brazilian law, each of these claims could result in substantial monetary fines and other penalties although we believe each of the claims is without merit.

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

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

	Mexican Stock Exchange		New York Stock Exchange			
	Mexican pesos per Series L Share		U.S. dollars per ADS			
	High⁽¹⁾	Low⁽¹⁾	High⁽¹⁾	Low⁽¹⁾		
2006:						
Full year	41.45	Ps. 29.30	US\$ 38.00	US\$ 26.75		
	Ps.					
2007:						
Full year	53.65	Ps. 37.78	US\$ 49.28	US\$ 34.05		
	Ps.					
2008:						
Full year	64.49	Ps. 38.00	US\$ 62.50	US\$ 27.74		
	Ps.					
2009:						
First quarter	62.90	Ps. 40.96	US\$ 45.13	US\$ 26.41		
	Ps.					
Second quarter	56.83	48.23	43.09	35.16		
Third quarter	65.81	53.31	49.47	39.03		
Fourth quarter	86.71	66.43	66.87	47.75		
2010:						
First quarter	88.07	Ps. 74.24	US\$ 69.67	US\$ 57.67		
	Ps.					
Second quarter	94.00	79.90	70.99	62.59		
Third quarter	103.37	81.83	81.26	62.76		
Fourth quarter	103.36	92.25	83.61	76.96		
December	103.36	97.72	83.61	78.74		
2011:						
First quarter	102.34	Ps. 87.40	US\$ 83.65	US\$ 72.08		
	Ps.					
January	102.34	95.27	83.65	78.79		
February	99.00	87.48	82.33	72.34		
March	94.95	87.40	79.16	72.08		
April	96.50	91.86	83.02	79.23		

May	100.60	91.00	86.91	78.47
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(1) High and low closing prices for the periods presented.

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TRADING ON THE MEXICAN STOCK EXCHANGE

The Mexican Stock Exchange or the *Bolsa Mexicana de Valores, S.A.B. de C.V.*, located in Mexico City, is the only stock exchange in Mexico. 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. Beginning in March 2008, during daylight savings time, trading hours change to match the New York Stock Exchange trading hours, opening at 7:30 a.m. and closing at 2:00 p.m. local time. 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 three 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 Mexican Stock Exchange. Most securities traded on the Mexican Stock Exchange, including our shares, are on deposit with 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. The last amendment of our bylaws was approved on April 14, 2010, in accordance with the amendment of the shareholders agreement among our major shareholders, dated as of February 1, 2010. For a description of the provisions of our bylaws relating to our board of directors and executive officers, see “Item 6. Directors, Senior Management and Employees.”

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 *Ley General de Sociedades Mercantiles* (Mexican General Corporations Law). On December 5, 2006, we became a *sociedad anónima bursátil de capital variable* (Mexican variable capital listed stock company) and amended our bylaws in accordance with the Mexican Securities Market Law. We were registered in the *Registro Público de la Propiedad y del Comercio* (Public Registry of Property and Commerce) of Monterrey, Nuevo León, Mexico on November 22, 1991 under mercantile number 2986, folio 171, volume 365, third book of the Commerce section.

Purposes

The main corporate purposes of our company include the following:

- to establish, promote and organize corporations or companies of any type, as well as to acquire and possess shares or equity 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 in or with which we have commercial relations;
- to acquire and dispose of trademarks, tradenames, commercial names, copyrights, patents, inventions, franchises, distributions, concessions and processes;
- to possess, build, lease and operate real and personal property, install or by any other title operate plants, warehouses, workshops, retail or deposits necessary for our corporate purpose;
- 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 and 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;
- the respective rights of Series D Shares to participate in the voting of extraordinary matters, as they are defined by our bylaws; and
- prohibitions on non-Mexican ownership of Series A Shares. See “Item 6. Directors, Senior Management and Employees,” and “—Additional Transfer Restrictions Applicable to Series A and Series D Shares.”

Under our bylaws, holders of Series L Shares are entitled to vote in limited circumstances. They may appoint for election and elect up to three of our 18 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 and remove one director, through a general shareholders meeting, if they own 10% or more of all issued, subscribed and paid shares of the capital stock of the company, pursuant to the Mexican Securities Market Law. See “Item 6. Directors, Senior Management and Employees.” In addition, they are entitled to vote on certain matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares in the Mexican Stock Exchange or any other foreign stock exchange and those matters for which the Mexican Securities Market Law expressly allow them to vote.

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. Our past practice, which we intend to continue, has been to inform the depository to timely notify holders of our shares in the form of ADSs of upcoming votes and ask for their instructions.

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) at such extraordinary meeting 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 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, whether by order of the CNBV or at our request with the prior consent of 95% of the holders of our outstanding capital stock, our bylaws and the Mexican Securities Market Law require us to make a public offer to acquire these shares prior to their cancellation.

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

Under our bylaws and the Mexican General Corporations 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.

Pursuant to the Mexican Securities Market Law, we are subject to 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) may require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders meeting;
- holders of at least 5% of our outstanding capital stock may bring an action for liability against our directors, the secretary of the board of directors or certain key officers;
- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, at any shareholders meeting to request that resolutions with respect to any matter on which they considered 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; and
- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

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, Article 53 of the Mexican Securities Market Law and in our bylaws. These matters include, among others: 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, the amortization of distributable earnings into capital stock, and an increase in our capital stock. 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 Company for the preceding fiscal year and (2) to determine the allocation of the profits of the preceding year. Further, any transaction to be entered into by us or our subsidiaries within the next fiscal year that represents 20% or more of our consolidated assets must be approved at an ordinary shareholders meeting at which holders of Series L Shares shall be entitled to vote.

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, 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 75% 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 series of 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 in capital stock voting (and not abstaining) at the meeting, unless in the event of any decisions defined as extraordinary matters by the bylaws or any payment of dividends above 20% of the preceding years' retained earnings, which shall require the approval of a majority of shareholders of each of Series A and Series D Shares voting together as a single class. Resolutions adopted at a special shareholders meeting 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 Audit Committee or the Corporate Practices Committee and, under certain circumstances, a Mexican court. Holders of 10% or more of our capital stock may require the chairman of the board of directors, or the chairmen of the Audit Committee or Corporate Practices Committee to call a shareholders meeting. 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 of directors. Once the holders of Series A and Series D Shares have approved the financial statements, they determine the allocation of our net income for the preceding year. Mexican law requires the allocation of at least 5% of net income 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

income to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net income 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.

Change in Capital

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. 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. All changes in the fixed or variable capital have to be registered in our capital variation registry.

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 shareholders' equity. Treasury stock may only be sold pursuant to a public offering.

Preemptive Rights

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. Under Mexican law and our bylaws, except in these circumstances and other limited circumstances (including mergers, sales of repurchased shares, conversion into shares of convertible securities and capital increases by means of payment in kind for shares or shares issued in return for the cancellation of debt), 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 Mexican 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.

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, observing at all moments their duty of care and duty of loyalty, among other matters:

- any transactions with related parties outside the ordinary course of our business;
- significant asset transfers or acquisitions;
- material guarantees or collateral;
- appointment of officers and managers deemed necessary, as well as the necessary committees;
- the five-year business plan and the annual business plan;
- internal policies; 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 directors voting (and not abstaining). The majority of the members, which shall include the vote of at least two Series D Shares directors, shall approve any extraordinary decision including any new business acquisition or combination or any change in the existing line of business, among others. If required, the chairman of the board of directors may cast a tie-breaking vote.

See “Item 6. Directors, Senior Management and Employees—Directors” and “Item 6. Directors, Senior Management and Employees—Board Practices.”

Redemption. Our fully paid shares are subject to redemption in connection with either (1) a reduction of capital stock or (2) a redemption with distributable 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 distributable 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 Market Law.

Repurchase of Shares. According to our bylaws, and subject to the provisions of the Mexican Securities Market Law and under rules promulgated by the CNBV, we may repurchase our shares.

In accordance with the Mexican Securities Market Law, our subsidiaries may not purchase, directly or indirectly, shares of our capital stock or any security that represents such shares.

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. 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.