COCA COLA FEMSA SAB DE CV
Form 20-F
June 25, 2007

**As filed with the Securities and Exchange Commission on June 25, 2007**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

## FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13**
**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the Fiscal Year Ended December 31, 2006**
**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)

**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, 2006 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: (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 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 i 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.

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

## Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 10.7995 to US$ 1.00, the noon buying rate for Mexican pesos on December 29, 2006 as published by the Federal Reserve Bank of New York. On June 15, 2007, this exchange rate was Ps. 10.810 to US$ 1.00. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 2002.

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

## Sources

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

## Forward-Looking Information

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

## Item 1. Not Applicable

**Item 2. Not Applicable**

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## Item 3. Key Information

### Selected Consolidated Financial Data

This annual report includes (under Item 18) our audited consolidated balance sheets as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in stockholders equity and changes in financial position for the years ended December 31, 2006, 2005 and 2004. 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 25 and 26 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 stockholders equity.

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

- Nonmonetary assets (including property, plant and equipment of local origin) and stockholders equity are restated for inflation based on the local consumer price index. Property, plant and equipment of foreign origin are restated based on the exchange rate and inflation in the country of origin and converted into Mexican pesos using the prevailing exchange rate at the balance sheet date.
- Gains and losses in purchasing power from holding monetary liabilities or assets are recognized in income.
- All financial statements are restated in constant Mexican pesos at December 31, 2006.
- The effects of inflation accounting under Mexican Financial Reporting Standards have not been reversed in the reconciliation to U.S. GAAP of net income and stockholders equity. See Notes 25 and 26 to our consolidated financial statements.

Our non-Mexican subsidiaries maintain their accounting records in the currency and in accordance with accounting principles generally accepted in the country where they are located. For presentation in our consolidated financial statements, we adjust these accounting records into Mexican Financial Reporting Standards, apply the inflation factors of the local country to restate to the purchasing power of the local currency at the end of the most recent period for which financial results are being reported, and translate the resulting amounts into Mexican pesos using the exchange rate at the end of the most recent period.

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements, including the notes thereto. The selected financial information contained herein is presented on a consolidated basis, and is not necessarily indicative of our financial position or results of operations at or for any future date or period.

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| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006[1] | 2006 | 2005 | 2004 | 2003[2] | 2002 |
| | (in millions of U.S. dollars or in millions of constant Mexican pesos at December 31, 2006, except per share data) | | | | | |
| **Income Statement Data:** | | | | | | |
| **Mexican FRS** | | | | | | |
| Net sales | $ 5,328 | Ps. 57,539 | Ps. 53,601 | Ps. 50,899 | Ps. 41,193 | Ps. 21,066 |
| Total revenues | 5,346 | 57,738 | 53,997 | 51,276 | 41,626 | 21,240 |
| Cost of sales | 2,796 | 30,196 | 27,522 | 26,227 | 20,974 | 9,902 |
| Gross profit | 2,550 | 27,542 | 26,475 | 25,049 | 20,652 | 11,338 |
| Operating expenses | 1,675 | 18,086 | 17,257 | 16,590 | 12,932 | 6,056 |
| Intangible amortization | - | - | - | - | - | 47 |
| Income from operations | 875 | 9,456 | 9,218 | 8,459 | 7,720 | 5,235 |
| Net income for the year | 468 | 5,053 | 4,883 | 5,975 | 2,709 | 3,006 |
| Majority net income | 452 | 4,883 | 4,759 | 5,946 | 2,689 | 3,006 |
| Minority net income | 16 | 170 | 124 | 29 | 20 | - |
| **U.S. GAAP** | | | | | | |
| Net sales | $ 5,328 | Ps. 57,539 | Ps. 51,860 | Ps. 49,005 | Ps. 39,230 | Ps. 20,569 |
| Total revenues | 5,349 | 57,768 | 52,233 | 49,351 | 39,631 | 20,721 |
| Income from operations[3] | 781 | 8,432 | 8,405 | 7,837 | 7,348 | 5,029 |
| Net income for the year | 455 | 4,919 | 4,635 | 6,165 | 2,599 | 2,969 |
| Net income per share [4] | 0.27 | 2.96 | 2.33 | 3.84 | 1.53 | 2.08 |
| **Balance Sheet Data:** | | | | | | |
| **Mexican FRS** | | | | | | |
| Total assets | $ 6,947 | Ps. 75,024 | Ps. 71,034 | Ps. 72,135 | Ps. 71,277 | Ps. 19,425 |
| Short-term debt | 293 | 3,170 | 4,690 | 3,560 | 3,564 | 11 |
| Long-term debt | 1,499 | 16,181 | 16,315 | 23,403 | 29,604 | 3,728 |
| Capital stock | 278 | 3,003 | 3,003 | 3,003 | 3,003 | 2,786 |
| Majority stockholders equity | 3,729 | 40,270 | 35,636 | 32,245 | 26,395 | 11,001 |
| Total stockholders equity | 3,841 | 41,484 | 36,706 | 33,025 | 26,583 | 11,001 |
| **U.S. GAAP** | | | | | | |
| Total assets | $ 7,010 | Ps. 75,708 | Ps. 70,523 | Ps. 73,031 | Ps. 71,326 | Ps. 19,402 |
| Short-term debt | 293 | 3,170 | 4,607 | 3,518 | 3,367 | 10 |
| Long-term debt | 1,499 | 16,181 | 16,308 | 23,349 | 29,520 | 3,727 |
| Capital stock | 278 | 3,003 | 3,003 | 3,003 | 3,003 | 2,787 |
| Total stockholders equity | 3,728 | 40,257 | 35,119 | 31,469 | 24,937 | 10,513 |
| **Other Data:** | | | | | | |
| **Mexican FRS** | | | | | | |
| Depreciation[5] | $ 139 | Ps. 1,504 | Ps. 1,419 | Ps. 1,390 | Ps. 1,156 | Ps. 697 |
| Capital expenditures[6] | 242 | 2,615 | 2,219 | 2,162 | 2,252 | 1,605 |
| **U.S. GAAP** | | | | | | |
| Depreciation[5][7] | $ 134 | Ps. 1,450 | Ps. 1,332 | Ps. 1,142 | Ps. 1,622 | Ps. 502 |

(1)

Translation to U.S. dollar amounts at an exchange rate of Ps. 10.7995 to US$ 1.00 solely for the convenience of the reader.

(2) In May 2003, we acquired Corporación Interamericana de Bebidas, S.A. de C.V., known at the time of acquisition as Panamerican Beverages, Inc., and which we refer to as Panamco. Panamco is included in our consolidated financial statements from May 2003 and is not included for periods prior to such date. As a result, our consolidated financial information for periods subsequent to the acquisition is not comparable to information for prior periods.

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

(4) For the year ended December 31, 2002, computed on the basis of 1,425 million shares outstanding. For the year ended December 31, 2003, computed on the basis of 1,704.3 million shares outstanding, the weighted average shares outstanding during 2003 after giving effect to the capital increase in May 2003 in connection with the Panamco acquisition. For the year ended December 31, 2004, computed on the basis of 1,846.4 million shares outstanding, the weighted average shares outstanding during 2004 after giving effect to the rights offering that expired in September 2004. For the years ended December 31, 2006 and 2005, computed on the basis of 1,846.5 million shares outstanding.

(5) Excludes estimated breakage of bottles and cases and amortization of other assets. See the consolidated statements of changes in financial position included in our consolidated financial statements.

(6) Includes investments in property, plant and equipment, bottles and cases and deferred charges.

(7) 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 |
|---|---|---|---|
| 2002[(1)] | | | |
| 2003 | May 14, 2004 | 0.282 | 0.025 |
| 2004 | May 4, 2005 | 0.336 | 0.031 |
| 2005 | June 15, 2006 | 0.376 | 0.033 |
| 2006 | May 15, 2007 | 0.438 | 0.041 |

(1) Dividends were not declared for fiscal year 2002

The declaration, amount and payment of dividends are subject to approval by holders of our Series A Shares and our Series D Shares voting as a single class, generally upon the recommendation of our board of directors, and will depend upon our operating results, financial condition, capital requirements, general business conditions and the requirements of Mexican law. Holders of Series L Shares, including in the form of ADSs, are not entitled to vote on the declaration and payments of dividends. We have historically paid dividends although we decided not to pay a dividend for fiscal year 2002 because our priority was to pay down the new debt assumed for the Panamco acquisition. Accordingly, our historical dividend payments are not necessarily indicative of future dividends.

**Exchange Rate Information**

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

| Period | Exchange Rate | | | |
|---|---|---|---|---|
| | High | Low | Average [(1)] | End of Period |

| | | | | |
|---|---|---|---|---|
| 2002 | Ps. 10.43 | Ps. 9.00 | Ps. 9.66 | Ps. 10.43 |
| 2003 | 11.41 | 10.11 | 10.79 | 11.24 |
| 2004 | 11.64 | 10.81 | 11.31 | 11.15 |
| 2005 | 11.41 | 10.41 | 10.87 | 10.63 |
| 2006 | 11.46 | 10.43 | 10.91 | 10.80 |

(1) Average month-end rates.

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| | Exchange Rate | | |
|---|---|---|---|
| | High | Low | End of Period |
| 2005: | | | |
| First Quarter | Ps. 11.41 | Ps. 10.98 | Ps. 11.18 |
| Second Quarter | 11.23 | 10.76 | 10.77 |
| Third Quarter | 10.90 | 10.58 | 10.79 |
| Fourth Quarter | 10.94 | 10.41 | 10.63 |
| 2006: | | | |
| First Quarter | Ps. 10.95 | Ps. 10.43 | Ps. 10.90 |
| Second Quarter | 11.46 | 10.84 | 11.29 |
| Third Quarter | 11.18 | 10.74 | 10.98 |
| Fourth Quarter | 11.06 | 10.71 | 10.80 |
| October | 11.06 | 10.71 | 10.77 |
| November | 11.05 | 10.75 | 11.00 |
| December | 10.99 | 10.77 | 10.80 |
| 2007: | | | |
| First Quarter | Ps. 11.18 | Ps. 10.77 | Ps. 11.04 |
| January | Ps. 11.09 | Ps. 10.77 | Ps. 11.04 |
| February | 11.16 | 10.92 | 11.16 |
| March | 11.18 | 11.01 | 11.04 |
| April | 11.03 | 10.92 | 10.93 |
| May | 10.93 | 10.74 | 10.74 |

Mexico has a free foreign exchange market and, since December 1994, the Mexican government has not intervened to maintain the value of the Mexican peso against the U.S. dollar. The Mexican peso declined in 1998 as the foreign exchange markets experienced volatility as a result of the financial crises in Asia and Russia and financial turmoil in countries such as Brazil and Venezuela. The Mexican peso remained relatively stable from 1999 until the fall of 2001. In late 2001 and early 2002, the Mexican peso appreciated considerably against the U.S. dollar and, more strongly, against other foreign currencies. From the second quarter of 2002 and until the end of 2003, the Mexican peso depreciated in value. The Mexican peso has remained relatively stable since 2004. The Mexican government may not maintain its current policies with regard to the Mexican peso, and the Mexican peso may depreciate significantly in the future.

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

# RISK FACTORS

## Risks Related to Our Company

***Our business depends on our relationship with The Coca-Cola Company, and changes in this relationship may adversely affect our results of operations and financial position.***

Approximately 95% of our sales volume in 2006 was derived from sales of *Coca-Cola* trademark beverages. In each of our territories, we produce, market and distribute *Coca-Cola* trademark beverages through standard bottler agreements. Through its rights under the bottler agreements and as a large shareholder, The Coca-Cola Company has the ability to exercise substantial influence over the conduct of our business.

Under our bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. We prepare a three-year general business plan that is submitted to our board of directors for approval. The Coca-Cola Company may require that we demonstrate our financial ability to meet our plans and may terminate our rights to produce, market and distribute soft drinks in territories with respect to which such approval is withheld. The Coca-Cola Company also makes significant contributions to our marketing expenses although it is not required to contribute a particular amount. In addition, we are prohibited from bottling any soft drink product or distributing other beverages without The Coca-Cola Company s authorization or consent. We may not transfer control of the bottler rights of any of our territories without the consent of The Coca-Cola Company.

We depend on The Coca-Cola Company to renew our bottler agreements. Our bottler agreements for Mexico expire in 2013, and 2015, renewable in each case for ten-year terms. Our bottler agreements for Brazil expired in December 2004 and for Venezuela in August 2006. Our bottler agreements for Guatemala, Nicaragua, Panama (other beverages) and Colombia expire in June 2007. Our bottler agreement for *Coca-Cola* trademark beverages for Panama has an indefinite term but may be terminated with six months prior written notice by either party. We are currently in the process of negotiating renewals of these agreements on similar terms and conditions as the rest of the countries. Our remaining territories are governed by bottler agreements that expire after June 2007. There can be no assurances that The Coca-Cola Company will decide to renew any of these agreements. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial condition, prospects and results of operations.

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V. which we refer to as FEMSA have significant influence on the conduct of our business. The Coca-Cola Company indirectly owns 31.6% of our outstanding capital stock, representing 37.0% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint four of our 18 directors and certain of our executive officers and, except under limited circumstances, has the power to veto all actions requiring approval by our board of directors. FEMSA indirectly owns 53.7% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is entitled to appoint 11 of our 18 directors and certain of our executive officers. The Coca-Cola Company and FEMSA together, or FEMSA acting alone in certain limited circumstances, thus have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, except in certain limited situations, have the power to determine the outcome of all actions requiring approval of our shareholders. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders

Agreement. The interests of The Coca-Cola Company and FEMSA may be different from the interests of our remaining shareholders, which may result in us taking actions contrary to the interest of our remaining shareholders.

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

We engage in transactions, which are revised by our Audit Committee, with subsidiaries of both The Coca-Cola Company and FEMSA. Our transactions with FEMSA include supply agreements under which we purchase certain supplies and equipment, a service agreement under which a FEMSA subsidiary transports finished products from our production facilities to distribution facilities in Mexico, sales of finished products to a Mexican convenience store chain owned by FEMSA, sales and distribution agreements with Cervejarias Kaiser Brazil, a Brazilian brewer, which we refer to as Kaiser, controlled by FEMSA and a service agreement under which a FEMSA subsidiary provides administrative services to our company. In addition, we have entered into cooperative marketing arrangements with The Coca-Cola Company and FEMSA. We are a party to a number of bottler agreements with The Coca-Cola Company. We have also agreed, jointly with The Coca-Cola Company, to purchase 100% of the outstanding shares of Jugos del Valle, S.A.B. de C.V., which we refer to as Jugos del Valle, a Mexican juice and beverage producer. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions and Item 4. Information on the Company Bottler Agreements. Transactions with affiliates may create the potential for conflicts of interest, which could result in terms less favorable to us than could be obtained from an unaffiliated third party.

***Competition could adversely affect our financial performance.***

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

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

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

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

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

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

Our most significant raw materials are concentrate, which we acquire from companies designated by The Coca-Cola Company, packaging materials and sweeteners. Prices for concentrate are determined by The Coca-Cola Company pursuant to our bottler agreements as a percentage of the weighted average retail price in local currency, net of applicable taxes. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. The prices for our remaining raw materials are driven by market prices and local availability as well as the imposition of import duties and import restrictions and fluctuations in exchange rates. We are also required to meet all of our supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to us. Our sales prices are denominated in the local currency in which we operate, while the prices of certain materials used in the bottling of our products, mainly resin, ingots to make plastic bottles, finished plastic bottles and aluminum cans, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currency of any country in which we operate, particularly against the Mexican peso. See Item 4. Information on the Company The Company Raw Materials.

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. In Mexico, the average prices that we paid for resin remained relatively flat in U.S. dollars in 2006. Sugar prices in all of the countries in which we operate other than Brazil are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices for sugar. We expect sugar prices to decrease in 2007 in all of the countries in which we operate other than Mexico and Venezuela. In Venezuela, we have experienced sugar shortages that have adversely affected our operations. These shortages were due to insufficient domestic production to meet demand and current restrictions on sugar imports.

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

***Taxes on soft drinks could adversely affect our business.***

Our products are subject to excise and value-added taxes in many of the countries in which we operate. The imposition of new taxes or increases in taxes on our products may have a material adverse effect on our business, financial condition, prospects and results of operations. In 2003, Mexico implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener but this tax was removed beginning in 2007. Certain countries in Central America, Argentina and Brazil impose taxes on carbonated soft drinks. See Item 4. Information on the Company Regulation Taxation of Soft Drinks. We cannot assure you that any governmental authority in any country where we operate will not impose or increase taxes on our products in the future.

***Regulatory developments may adversely affect our business.***

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

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. The imposition of these restrictions in the future may have an adverse effect on our results of operations and financial position. Although Mexican bottlers have been free to set prices for carbonated soft drinks without governmental intervention since January 1996, such prices had been subject to statutory price controls and to voluntary price restraints, which effectively limited our ability to increase prices in the Mexican market without governmental consent. See Item 4. Information on the Company Regulation Price Controls. We cannot assure that governmental authorities in any country where we operate will not impose statutory price controls or voluntary price restraints in the future.

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

## Risks Related to the Series L Shares and the ADSs

***Holders of our Series L Shares have limited voting rights.***

Holders of our Series L Shares are entitled to vote only in limited circumstances. They generally may elect three of our 18 directors and are only entitled to vote on specific matters, including changes in our corporate form (other than changes from *sociedad anónima bursátil de capital variable* to *sociedad anónima bursátil* and viceversa), mergers involving our company when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares and those matters that expressly require approval under the new Mexican Securities Market Law, which we refer to as the Mexican Securities Law. As a result, Series L shareholders will not be able to influence our business or operations. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Bylaws Voting Rights.

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

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

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

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

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

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

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

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

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

Under applicable Mexican law, if we issue new shares for cash as a part of a capital increase, other than in connection with a public offering of newly issued shares or treasury stock (which are exempt under the Mexican Securities Law), we are generally required to grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our shares or ADSs who are located in the United States to exercise any preemptive rights in any future capital increases unless (1) we file a registration statement with the SEC with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S.

Securities Act of 1933. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

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

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic segment. For the year ended December 31, 2006, 52.6% of our total revenues were attributable to Mexico. Several years ago, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our company. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our results of operations and financial condition.

Our business may be significantly affected by the general condition of the Mexican economy, or by the rate of inflation in Mexico, interest rates in Mexico and exchange rates for the Mexican peso. Decreases in the growth rate of the Mexican economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result. In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate, Mexican peso-denominated funding, which constituted approximately 5% of our total debt as of December 31, 2006, and have an adverse effect on our financial position and results of operations.

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

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

***Political events in Mexico could adversely affect our operations.***

Federal elections were held in Mexico in July 2006. Although the Partido Acción Nacional won a plurality of the seats in the Mexican Congress in the election, no party succeeded in securing a majority in either chamber of the Mexican Congress. The absence of a clear majority by a single party is likely to continue at least until the next congressional election in 2009. This situation may result in government gridlock and political uncertainty. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results of operations.

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

In addition to Mexico, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Argentina and Brazil. These countries expose us to different or greater country risk than Mexico. For many of these countries, results of operations in recent years have been adversely affected by deteriorating macroeconomic and political conditions. In Venezuela, significant economic, regulatory and political instability, including a currency devaluation, high unemployment, the introduction of exchange controls and social unrest have resulted in higher production costs and declining profitability for us. We have also experienced short-term disruptions in our Venezuelan operations during the last twelve months due to obstructions from demonstrators and closings required by tax authorities.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate, by the devaluation of the local currency, inflation or interest rates or by political developments or changes in law. Total revenues increased in our non-Mexican territories, at a relatively higher rate than in our Mexican territories in 2006 as compared to prior periods, resulting in a greater contribution to our results of operations from these territories, which also have a lower operating margin. This trend may continue in the future. Devaluation of the local currencies against the U.S. dollar may increase our operating costs in these countries, and depreciation against the Mexican peso may negatively affect the results of operations for these countries as reported in our Mexican Financial Reporting Standards financial statements. In addition, some of these countries may impose exchange controls that could impact our ability to purchase raw materials in foreign currencies and the ability of the subsidiaries in these countries to remit dividends abroad or make payments other than in local currencies, as is currently the case in Venezuela under regulations imposed in January 2003 that continue to apply. As a result of these potential risks, we may experience lower demand, lower real pricing or increases in costs, which may negatively impact our results of operations.

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## Item 4. Information on the Company

## THE COMPANY

### Overview

We are the largest bottler of *Coca-Cola* trademark beverages in Latin America, and the second largest in the world, calculated in each case by sales volume in 2006. We operate in the following territories:

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

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

The following is an overview of our operations by segment in 2006:

**Operations by Segment  Overview**
**Year Ended December 31, 2006(1)**

| | Total Revenues | Percentage of Total Revenues | Income from Operations | Percentage of Income from Operations |
|---|---|---|---|---|
| Mexico | Ps .30,360 | 52.6 | Ps 6,390 | 67.6 |
| Central America | 4,142 | 7.2 | 613 | 6.5 |
| Colombia | 5,507 | 9.5 | 727 | 7.7 |
| Venezuela | 6,532 | 11.3 | 169 | 1.8 |
| Argentina | 3,281 | 5.7 | 419 | 4.4 |
| Brazil | 7,916 | 13.7 | 1,138 | 12.0 |

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

**Corporate History**

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

In 1979, a subsidiary of FEMSA acquired certain soft drink bottlers that are now a part of our company. At that time, the acquired bottlers had 13 Mexican distribution centers operating 701 distribution routes, and their production capacity was 83 million physical cases. In 1991, FEMSA transferred its ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., the corporate predecessor 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 the territory for our operations in Buenos Aires, Argentina from a subsidiary of The Coca-Cola Company. We expanded our Argentine operations in February 1996 by acquiring territories for the contiguous San Isidro and Pilar areas.

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

In May 2003, we acquired 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. The purpose of the rights offering was to permit holders of Series L Shares, including in the form of ADSs, to subscribe on a proportionate basis at the same price per share at which FEMSA and The Coca-Cola Company subscribed in connection with the Panamco acquisition. The rights offering expired on September 1, 2004. On March 8, 2006, our shareholders approved the non-cancellation of the 98,684,857 Series L Shares (equivalent to approximately 9.87 million ADSs) that were not subscribed for in the rights offering. These shares are available for issuance in connection with future transactions and on terms and conditions determined by our board of directors at an issuance price of no less than US$ 2.216 per share or its equivalent in Mexican currency.

On November 3, 2006, FEMSA acquired, through a subsidiary, 148,000,000 of our Series D shares from certain subsidiaries of The Coca-Cola Company representing 9.4% of the total outstanding voting shares and 8.0% of the total outstanding equity of Coca-Cola FEMSA, at a price of US$ 2.888 per share for an aggregate amount of US$ 427.4 million. The acquisition of such additional shares took place pursuant to the Memorandum of Understanding between FEMSA and The Coca-Cola Company relating to the acquisition of Panamco by us in 2003. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Coca-Cola Memorandum. With this purchase, FEMSA increased its ownership to 53.7% of our capital stock. Pursuant to our bylaws, the acquired shares were converted from Series D Shares to Series A Shares.

On December 5, 2006, Coca-Cola FEMSA changed its name from Coca-Cola FEMSA, S.A. de C.V. (Coca-Cola FEMSA, Sociedad Anónima de Capital Variable) to Coca-Cola FEMSA, S.A.B. de C.V. (Coca-Cola FEMSA, Sociedad Anónima Bursátil de Capital Variable). See Item 10 Additional Information Bylaws.

On December 19, 2006, we and The Coca-Cola Company announced an agreement with the controlling shareholders of Jugos del Valle to conduct a public tender offer in Mexico of up to 100% of the outstanding public shares of Jugos del Valle for approximately US$380 million in cash. The price assumes a total aggregate value of

US$470 million and that Jugos del Valle has approximately US$90 million in net debt. The final price to be paid will be based on the actual level of debt, net working capital and other liabilities on the date the tender offer is launched. The tender offer will be launched once applicable regulatory approvals have been obtained. We anticipate that other bottlers in Mexico and Brazil will be invited to participate subsequent to the completion of the acquisition on the same basic terms and conditions.

Jugos del Valle is the second largest producer of packaged juices, nectars and fruit flavored beverages in Mexico, the largest producer in Brazil of such products, and it has a presence in other Latin American markets. Jugos del

Valle generated approximately US$440 million in total revenues for the 12-month period ended September 30, 2006. If consummated, the transaction will greatly increase our and The Coca-Cola Company s presence in the non-carbonated beverage segment in Latin America. The transaction is subject to certain conditions, including applicable regulatory approvals.

On May 25, 2007 the *Comisión Federal de Competencia* of Mexico (CFC), or the Mexican Antitrust Commission, announced its decision to object to the acquisition of Jugos del Valle. We have not yet received the official resolution from the Mexican Antitrust Commission. We intend to consider our options upon receipt thereof, which may include seeking a reconsideration of the decision.

As of March 31, 2007, FEMSA indirectly owned Series A Shares equal to 53.7% of our capital stock (63.0% of our capital stock with full voting rights), and The Coca-Cola Company indirectly owned Series D Shares equal to 31.6% of the capital stock of our company (37.0% 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 are the largest bottler of *Coca-Cola* trademark beverages in Latin America in terms of total sales volume in 2006, with operations in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Argentina and Brazil. While our corporate headquarters are in Mexico City, we have established divisional headquarters in the following three regions:

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

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

- working with The Coca-Cola Company to develop a business model to continue exploring new lines of beverages, extend existing products, participate in new beverage segments and effectively advertise and market our products;
- developing and expanding our non-carbonated beverage portfolio organically and through strategic acquisitions together with The Coca-Cola Company;
- implementing packaging strategies designed to increase consumer demand for our products and to build a strong returnable base for the Coca-Cola brand selectively;
- replicating our successful best practices throughout the whole value chain;

- rationalizing and adapting our organizational and asset structure in order to be in a better position to respond to a changing competitive environment;
- strengthening our selling capabilities and selectively implementing our pre-sale system, in order to get closer to our clients and help them satisfy the beverage needs of consumers;
- evaluating our bottled water strategy, in conjunction with The Coca-Cola Company, to maximize its profitability across our market territories;
- committing to building a strong collaborative team, from top to bottom; and

- seeking to expand our geografical footprint.

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

We seek to rationalize our manufacturing and distribution capacity to improve the efficiency of our operations. In 2003 and 2004, as part of the integration process from our acquisition of Panamco, we closed several under-utilized manufacturing centers and shifted distribution activities to other existing facilities. We closed additional distribution centers in 2005 and 2006. See Description of Property, Plant and Equipment. In each of our facilities, we seek to increase productivity through infrastructure and process reengineering for improved asset utilization. Our capital expenditure program includes investments in production and distribution facilities, bottles, cases, coolers and information systems. We believe that this program will allow us to maintain our capacity and flexibility to innovate and to respond to consumer demand for non-alcoholic beverages.

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

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**Our Markets**

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

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

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**Our Products**

We produce, market and distribute *Coca-Cola* trademark beverages, proprietary brands and brands licensed from third parties. The *Coca-Cola* trademark beverages include colas, flavored soft drinks, water and beverages in other categories such as juice drinks and isotonics. The following table sets forth our main brands as of March 31, 2007:

| ***Colas:*** | **Mexico** | **Central America** | **Colombia** | **Venezuela** | **Brazil** | **Argentina** |
|---|---|---|---|---|---|---|
| *Coca-Cola* | | | | | | |
| *Coca-Cola light* | | | | | | |

| ***Flavored Soft Drinks:*** | **Mexico** | **Central America** | **Colombia** | **Venezuela** | **Brazil** | **Argentina** |
|---|---|---|---|---|---|---|
| *Chinotto* | | | | | | |
| *Crush* | | | | | | |
| *Fanta* | | | | | | |
| *Fresca* | | | | | | |
| *Frescolita* | | | | | | |
| *Hit* | | | | | | |
| *Kuat* | | | | | | |
| *Lift* | | | | | | |
| *Mundet*(1) | | | | | | |
| *Premio*(2) | | | | | | |
| *Quatro* | | | | | | |
| *Simba* | | | | | | |
| *Sprite* | | | | | | |
| *Taí* | | | | | | |

| ***Water:*** | **Mexico** | **Central America** | **Colombia** | **Venezuela** | **Brazil** | **Argentina** |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| *Alpina*(2) | | | | | | |
| *Ciel* | | | | | | |
| *Crystal*(2) | | | | | | |
| *Manantial* | | | | | | |
| *Nevada* | | | | | | |
| *Santa Clara*(2) | | | | | | |

| ***Other Categories:*** | **Mexico** | **Central America** | **Colombia** | **Venezuela** | **Brazil** | **Argentina** |
|---|---|---|---|---|---|---|
| *Dasani*(3) | | | | | | |
| *Hi-C*(4) | | | | | | |
| *Nestea* | | | | | | |
| *Powerade*(5) | | | | | | |
| *Sonfil*(4) | | | | | | |

(1) Brand licensed from FEMSA.
(2) Proprietary brand.
(3) Flavored no-calorie water. (In Argentina also as still water)
(4) Juice based drink.
(5) Isotonic.

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**Sales Overview**

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

| | Sales Volume Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| | (millions of unit cases) | | |
| Mexico | 1,070.7 | 1,025.0 | 989.9 |
| Central America | 120.3 | 109.4 | 110.6 |
| Colombia | 190.9 | 179.7 | 167.1 |
| Venezuela | 182.6 | 172.5 | 172.7 |
| Argentina | 164.9 | 150.1 | 144.3 |
| Brazil(1) | 268.7 | 252.5 | 227.5 |
| Combined Volume | 1,998.1 | 1,889.2 | 1,812.1 |

(1) Excludes beer sales volume.

**Product and Packaging Mix**

Our most important brand is *Coca-Cola* and its line extensions, *Coca-Cola light*, *Coca-Cola light caffeine free* and *Coca-Cola light with lime*, which together accounted for 62.5% of total sales volume in 2006. *Ciel* (including jug presentations), *Fanta, Sprite, Lift* and *Fresca*, our next largest brands in consecutive order, accounted for 10.5%, 6.1%, 3.0%, 1.9% and 1.7%, respectively, of total sales volume in 2006. 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 terephtalate, which we refer to as PET.

We use the term presentation to refer to the packaging unit in which we sell our products. Presentation sizes for our *Coca-Cola* trademark beverages range from a 4-ounce personal size to a 20-liter multiple serving size. We consider multiple serving size as equal to or larger than 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. We offer both returnable and non-returnable presentations, which allow us to offer different combinations of convenience and price to implement revenue management strategies and to target specific distribution channels and population segments in our territories. In addition, we sell some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. We also sell bottled water products in jug sizes, which refers to sizes larger than 17 liters, that have a much lower price per unit than our other beverage products.

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

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

The characteristics of our territories are very diverse. Central Mexico and our territories in Argentina are densely populated and have a large number of competing carbonated soft drink brands as compared to the rest of our territories. Brazil is densely populated but has lower per capita consumption of carbonated soft drink products as compared to Mexico. Portions of Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of soft drink products. In Venezuela per capita consumption of our products has improved in spite of operating disruptions faced during 2006.

The following discussion analyzes our product and packaging mix by segment. The volume data presented is for the years 2006, 2005 and 2004.

***Mexico.*** Our product portfolio consists of *Coca-Cola* trademark beverages, and since 2001 has included the *Mundet* trademark beverages. In 2007, as part of our efforts to revitalize the *Coca-Cola* brand we launched *Coca-Cola Zero,* a line extension of the *Coca-Cola* brand. Carbonated soft drink per capita consumption of our products in our Mexican territories in 2006 was 410 eight-ounce servings.

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

| | **Year Ended December 31,** | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| **Product Sales Volume** | **(millions of unit cases)** | | |
| Total | 1,070.7 | 1,025.0 | 989.9 |
| % Growth | 4.5% | 3.5% | (1.2)% |
| **Unit Case Volume Mix by Category** | **(in percentages)** | | |
| Total Carbonated Soft Drinks | 79.6% | 79.6% | 80.4% |
| Water[(1)] | 19.5 | 19.7 | 19.1 |
| Other Categories | 0.9 | 0.7 | 0.5 |
| Total | 100.0% | 100.0% | 100.0% |
| **Product Mix by Presentation** | **(in percentages)** | | |
| Returnable | 26.0% | 26.6% | 28.4% |
| Non-returnable and fountain | 59.2 | 58.4 | 57.2 |
| Jug | 14.8 | 15.0 | 14.4 |
| Total | 100.0% | 100.0% | 100.0% |

(1) Includes jug volume.

Our most popular soft drink presentations were the 2.5 -liter returnable plastic bottle, the 0.6 -liter non-returnable plastic bottle and the 2.5 -liter non-returnable plastic bottle, which together accounted for 55% of total carbonated soft drink sales volume in Mexico in 2006. Since 2004, we have introduced a number of new presentations in Mexico. These include 2.5 -liter returnable plastic bottles, 1.25 -liter returnable glass bottles, 1.5 -liter non-returnable plastic bottles, 8, 10.5 and 16-ounce cans, 0.45 -liter non-returnable plastic bottles, 0.71 -liter non-returnable plastic bottles and 4-ounce non-returnable glass bottles. During 2006 we complemented our portfolio in the returnable presentations with the roll-out of a 1.25 -liter returnable glass presentation in an affordable price. This presentation accounted for over 30% of our incremental volume in the year. Multiple serving presentations are an important component of our product mix. In 2006, multiple serving presentations represented 63.4% of total carbonated soft drink sales volume in Mexico, a 6.8% growth compared to 2005. Our commercial strategies seek to foster consumption in single serving presentations while maintaining multiple serving volumes.

In the past, the packaging trend in the soft drink industry in Mexico had moved toward non-returnable presentations. However, in 2004, due to the entrance of low price brands in multiple serving size presentations, we refocused our packaging mix strategy to reinforce our sales of multiple serving size returnable packages. As a result, carbonated soft drink non-returnable presentations remained almost flat as a percentage of total sales volume in Mexico in 2004. In 2006, our carbonated soft drink non-returnable presentations slightly increased as a percentage of our total sales volume from 68.7% in 2005 to 69.5% in 2006. Returnable plastic and glass presentations offer consumers a more affordable, although less convenient, product. We believe returnable packages present an opportunity for us to attract new customers and maintain customer loyalty, because they make *Coca-Cola* trademark beverages more attractive to price-sensitive consumers. The price of a 2.5 -liter returnable package is normally more than 14% lower than a non-returnable package of the same size. These returnable products are mainly sold to small store retailers, which represent the largest distribution channel in the Mexican market, and benefit from returnable bottles lower price per ounce, which allows them to compete with larger supermarkets. We believe that our continued commitment to returnable bottle availability will allow us to compete with low-price entrants to the Mexican soft drink market.

Total sales volume reached 1,070.7 million unit cases in 2006, an increase of 4.5% compared to 1,025.0 million

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unit cases in 2005. Carbonated soft drink sales volume grew 4.4%, accounting for almost 80% of the total incremental volumes during the year. Carbonated soft drink volume growth was mainly driven by strong growth of the *Coca-Cola* brand.

***Central America.*** Our product sales in Central America consist predominantly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption in Central America of our products was 151 eight-ounce servings in 2006.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| **Product Sales Volume** | | **(millions of unit cases)** | |
| Total | 120.3 | 109.4 | 110.6 |
| % Growth | 10.0% | (1.1)% | 3.1% |
| **Unit Case Volume Mix by Category** | | **(in percentages)** | |
| Total Carbonated Soft Drinks | 90.9% | 93.6% | 94.3% |
| Water | 4.4 | 4.3 | 4.1 |
| Other Categories | 4.7 | 2.1 | 1.6 |
| Total | 100.0% | 100.0% | 100.0% |
| **Product Mix by Presentation** | | **(in percentages)** | |
| Returnable | 34.9% | 41.9% | 48.3% |
| Non-returnable and fountain | 65.1 | 58.1 | 51.7 |
| Jug | | | |
| Total | 100.0% | 100.0% | 100.0% |

In Central America, we sell the majority of our sales volume through small retailers. In 2006, multiple serving presentations represented 50.6% of total carbonated soft drink sales volume in Central America, compared with 48.8% in 2005. Beginning in 2004, we faced greater competition as a result of the entrance of low price brands in the Central American region. As a result, we reinforced our packaging portfolio offering for the *Coca-Cola* brand with the introduction of 1.5 -liter and 2.5 -liter non-returnable plastic bottles and a more affordable 2.5 -liter returnable plastic bottle. In 2006, looking for a higher participation in the growing non-carbonated beverage segment, we complemented our product portfolio with the inclusion of *Hi-C,* a juice based product.

Total sales volume was 120.3 million unit cases in 2006, increasing 10.0% compared to 109.4 million in 2005. Carbonated soft drink volumes in the year accounted for 60% of our total incremental volume and non-carbonated beverages were the majority of the balance.

***Colombia.*** Our product portfolio in Colombia consists of *Coca-Cola* trademark beverages, certain products sold under proprietary trademarks and other brands, which we license from third parties. Carbonated soft drink per capita consumption of our products in Colombia during 2006 was 87 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| **Product Sales Volume** | **(millions of unit cases)** | | |
| Total | 190.9 | 179.7 | 167.1 |
| % Growth | 6.2% | 7.5% | (2.7)% |
| **Unit Case Volume Mix by Category** | **(in percentages)** | | |
| Total Carbonated Soft Drinks | 87.9% | 87.9% | 86.4% |
| Water[(1)] | 10.9 | 11.7 | 13.2 |
| Other Categories | 1.2 | 0.4 | 0.4 |
| Total | 100.0% | 100.0% | 100.0% |
| **Product Mix by Presentation** | **(in percentages)** | | |
| Returnable | 43.2% | 46.2% | 50.7% |
| Non-returnable and fountain | 51.3 | 47.8 | 42.9 |
| Jug | 5.5 | 6.0 | 6.4 |
| Total | 100.0% | 100.0% | 100.0% |

(1) Includes jug volume.

The Colombian market is characterized by lower per capita consumption and relatively lower levels of non-returnable presentations compared with the rest of our territories. In 2006, multiple serving presentations represented 52.3% of total carbonated soft drink sales volume in Colombia. At the beginning of 2005, we launched *Crush Multiflavors* to enhance our competitive position, foster demand for flavored carbonated soft drink brands and leverage our extended distribution and improved execution capabilities countrywide. In 2006, we launched *Dasani*, a no-calorie flavored water to complement our product portfolio.

Total sales volume was 190.9 million unit cases in 2006, an increase of 6.2% compared to 179.7 million in 2005, driven by carbonated soft drinks volume growth, which accounted for almost 90% of total incremental volume.

***Venezuela.*** Our product portfolio in Venezuela consists predominantly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of our products in Venezuela during 2006 was 147 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |

| **Product Sales Volume** | **(millions of unit cases)** | | |
|---|---|---|---|
| Total | 182.6 | 172.5 | 172.7 |
| % Growth | 5.9% | (0.1)% | 13.9% |
| **Unit Case Volume Mix by Category** | **(in percentages)** | | |
| Total Carbonated Soft Drinks | 87.7% | 86.6% | 86.3% |
| Water[(1)] | 7.5 | 8.7 | 8.2 |
| Other Categories | 4.8 | 4.7 | 5.5 |
| Total | 100.0% | 100.0% | 100.0% |
| **Product Mix by Presentation** | **(in percentages)** | | |
| Returnable | 17.5% | 24.7% | 30.1% |
| Non-returnable and fountain | 81.2 | 72.2 | 66.4 |
| Jug | 1.3 | 3.1 | 3.5 |
| Total | 100.0% | 100.0% | 100.0% |

(1) Includes jug volume.

During 2006 we continued facing periodic operating difficulties that prevented us from producing and distributing enough supply. We implemented a product portfolio rationalization strategy in the second half of the year, which enabled us to increase our total sales volume for the year by 5.9% .

In 2006, multiple serving presentations represented 69.1% of total carbonated soft drink sales volume in Venezuela. Total sales volume was 182.6 million unit cases in 2006, an increase of 5.9% compared to 172.5 million in 2005, driven by volume growth in the carbonated soft drink segment. In 2006, we focused on fostering volume growth of our core flavored carbonated soft drinks, posting a 13% growth for the year in this category. This incremental volumes, combined with volume growth of the *Coca*-Cola brand, more than offset volume decline of the value protection brands.

***Argentina.*** Our product portfolio in Argentina consists exclusively of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of our products in Argentina during 2006 was 351 eight-ounce servings.

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

| | **Year Ended December 31,** | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| **Product Sales Volume** | | **(millions of unit cases)** | |
| Total | 164.9 | 150.1 | 144.3 |
| % Growth | 9.8% | 4.0% | 14.0% |
| **Unit Case Volume Mix by Category** | | **(in percentages)** | |
| Total Carbonated Soft Drinks | 96.6% | 97.3% | 98.6% |
| Water | 1.2 | 1.4 | 0.8 |
| Other Categories | 2.2 | 1.3 | 0.6 |
| Total | 100.0% | 100.0% | 100.0% |
| **Product Mix by Presentation** | | **(in percentages)** | |
| Returnable | 24.7% | 25.9% | 26.9% |
| Non-returnable and fountain | 75.3 | 74.1 | 73.1 |
| Jug | | | |
| Total | 100.0% | 100.0% | 100.0% |

During 2006, our packaging mix continues shifting towards non-returnable presentations. Returnable packaging accounted for 24.7% of total sales volume in Argentina in 2006 as compared to 25.9% in 2005. In 2006, we introduced *Dasani*, a no-calorie flavored water to complement our non-carbonated beverage portfolio.

Total sales volume reached 164.9 million unit cases in 2006, an increase of 9.8% compared with 150.1 million in 2005. In 2006, core and premium brands incremental volumes more than offset volume decline of the value protection brands. In Argentina, premium brands consist of diet carbonated soft drinks and *Schweppes*. The majority of the volume growth came from our non-returnable presentations, which represented over 65% of the sales volume increase. In 2006, multiple serving presentations for the carbonated soft drinks remained almost flat at 83.7% as compared to 83.4% in 2005.

***Brazil.*** Our product portfolio in Brazil consists mainly of *Coca-Cola* trademark beverages and certain products sold under proprietary trademarks and the *Kaiser* beer brand, which we sell and distribute on behalf of FEMSA. Carbonated soft drink per capita consumption of our products in Brazil during 2006 was 196 eight-ounce servings.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| **Product Sales Volume** | (millions of unit cases) | | |
| Total | 268.7 | 252.5 | 227.5 |
| % Growth | 6.4% | 11.0% | 4.8% |
| **Unit Case Volume Mix by Category** | (in percentages) | | |
| Total Carbonated Soft Drinks | 91.7% | 92.3% | 93.4% |
| Water | 7.3 | 6.9 | 5.8 |
| Other Categories | 1.0 | 0.8 | 0.8 |
| Total | 100.0% | 100.0% | 100.0% |
| **Product Mix by Presentation** | (in percentages) | | |
| Returnable | 10.5% | 8.7% | 5.3% |
| Non-returnable and fountain | 89.5 | 91.3 | 94.7 |
| Jug | | | |
| Total | 100.0% | 100.0% | 100.0% |

During 2006, consistent with our strategy of strengthening our returnable base, we introduced *Fanta* in a 1.0 -liter returnable glass bottle, which together with the rest of the returnable portfolio accounted also for almost 40% of our incremental carbonated soft drinks volumes in the year.

Total sales volume was 268.7 million unit cases in 2006, an increase of 6.4% compared to 252.5 million in 2005. This increase included 5.7% carbonated soft drink volume growth during the year. Volume increase was a result of volume growth across all our beverage categories, including strong volume growth from the *Coca-Cola* brand in both returnable and non-returnable presentations, and incremental volumes from our water brand *Crystal* due to increased focus on both brands. In 2006, we introduced *Minute Maid Mais,* a juice based product to complement our product portfolio.

We sell and distribute the *Kaiser* brands of beer in our territories in Brazil. In January 2006, FEMSA acquired an indirect controlling stake in Cervejarias Kaiser Brasil S.A. or Cervejarias Kaiser. We have subsequently agreed to continue to distribute the *Kaiser* beer portfolio and to assume the sales function in São Paulo, Brazil, consistent with the arrangements in place prior to 2004. Beginning with the second quarter of 2005, we ceased including beer that we distribute in Brazil in our sales volumes. However, for comparability purposes, sales volumes presented in this report do not include beer sales for 2004, 2005 and 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 Argentina and Brazil, our highest sales levels occur during the summer months of October through March and the Christmas holidays in December.

**Marketing**

Our company, in conjunction with The Coca-Cola Company, has developed a sophisticated marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and non-price related retailer incentive programs designed by local affiliates of The Coca-Cola Company to target the particular preferences of our soft drink consumers. Our marketing expenses in 2006, net of contributions by The Coca-Cola Company, were Ps. 2,140 million. The Coca-Cola Company contributed an additional Ps. 1,164 million in 2006. Through the use of advanced information technology, we have collected customer and consumer information that allow us to tailor our marketing strategies to the types of customers located in each of our territories and to meet the specific needs of the various market segments we serve.

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

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

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

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

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

**Product Distribution**

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

**Product Distribution Summary**
**as of December 31, 2006**

| | Mexico | Central America | Colombia | Venezuela | Argenitna | Brazil |
|---|---|---|---|---|---|---|
| Distribution Centers | 92 | 28 | 37 | 32 | 5 | 12 |
| Retailers (in thousands)(1) | 624.1 | 115.7 | 381.1 | 224.2 | 79.1 | 122.3 |

(1) Estimated.

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

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

We believe that service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system for our products. Accordingly, we have continued to expand our pre-sale system throughout our operations in a selective way.

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

***Mexico.*** We contract with a subsidiary of FEMSA for the transportation of finished products to our distribution centers from our Mexican production facilities. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. From the distribution centers, we then distribute our finished products to retailers through our own fleet of trucks. During 2006, we closed 14 out of 106 distribution centers in our Mexican operations.

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

***Central America.*** In Central America, we distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. At the end of 2006, we operated 28 distribution centers in our Central American territories. In our Central American operations, as in most of our territories, an important part of our total sales volume is through small retailers, and we have low supermarket penetration.

***Colombia.*** We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors. During 2006, we closed five distribution facilities in Colombia. In Colombia, where we have low supermarket penetration, an important part of our total sales volume is done through small retailers.

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

***Argentina.*** As of December 31, 2006, we operated 5 distribution centers in Argentina. We distribute our finished products to retailers through a combination of our own fleet of trucks and third party distributors.

In 2006, we sold the majority of our products in the take-home segment, which consists of sales to consumers who take the beverages home or elsewhere for consumption. The percentage of total sales volume through supermarkets remained stable at 14.6% in 2006 from 14.3% in 2005.

***Brazil.*** In Brazil, the delivery of our finished products to customers is by a third party. At the end of 2006, we operated 12 distribution facilities in our Brazilian territories. In contrast with the rest of our territories, which have low supermarket penetration, in Brazil we sold more than 20% of our total sales volume through supermarkets in 2006. In addition, in designated zones, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers.

**Competition**

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

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

***Mexico.*** Our principal competitors in Mexico are bottlers of Pepsi products, whose territories overlap but are not co-extensive with our own. In central Mexico we compete with a subsidiary of PBG, the largest bottler of Pepsi products globally, and Grupo Embotelladores Unidos, S.A.B. de C.V., the Pepsi bottler in central and southeast Mexico. In addition, we compete with Cadbury Schweppes and with other national and regional brands in our Mexican territories. We continue to face competition from low price producers offering multiple serving size presentations in the soft drink industry.

***Central America.*** In the countries that comprise our Central America segment, our main competitors are Pepsi bottlers. In Guatemala and Nicaragua, we compete against a joint venture between AmBev and The Central American Bottler Corporation. In Costa Rica, our principal competitor is Embotelladora Centroamericana, S.A., and in Panama, our main competitor is Refrescos Nacionales, S.A. During 2006, we continued to face competition from low price producers offering multiple serving size presentations in some Central American countries.

***Colombia.*** Our principal competitor in Colombia is Postobón S.A., which we refer to as Postobón, a well-established local bottler that sells flavored soft drinks, some of which have a wide consumption preference, such as cream soda, which is the second most popular category in the Colombian soft drink industry in terms of total sales volume, and that also sells Pepsi products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia. During 2007, we expect to face an increase in competition from low price producers offering multiple serving size presentations.

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

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

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

**Raw Materials**

Pursuant to the bottler agreements with The Coca-Cola Company, we are required to purchase concentrate, including aspartame, an artificial sweetener used in diet sodas, for all *Coca-Cola* trademark beverages from companies designated by The Coca-Cola Company. The price of concentrate for all *Coca-Cola* trademark beverages is a percentage of the average price we charge to our retailers 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 most cases, concentrate is purchased in the local currency of the territory.

In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007, and in Brazil in 2006. As part of the new cooperation framework that we arrived at with The Coca-Cola Company at the end of 2006, The Coca-Cola Company will provide a relevant portion of the funds derived from the incidence increase to marketing support of the carbonated and non-carbonated soft drinks portfolio. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders New Cooperation Framework with The Coca-Cola Company.

In addition to concentrate, we purchase sweeteners, carbon dioxide, resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, closures and fountain containers, as well as other packaging materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for the soft drink. Our bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for packaging materials and high fructose corn syrup historically are determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Our most significant packaging raw material costs arise from the purchase of resin, plastic ingots to make plastic bottles and finished plastic bottles, which we obtain from international and local producers. The prices of these materials are tied to crude oil prices and global resin supply, and in the last years we have experienced volatility in the prices we pay for these materials. In Mexico, our average price for resin started to decline in the second half of 2006, and we currently expect prices to remain stable for 2007.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or high fructose corn syrup as sweeteners in our products. Sugar prices in all of the countries in which we operate, other than Brazil, are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices for sugar in certain countries. We have experienced sugar price volatility in these territories as a result of changes in local conditions, regulations and the stronger correlation to oil prices recently due to the use of sugar in alternative fuels.

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

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

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

In December 2001, the Mexican government expropriated the majority of the sugar mills in Mexico. To manage this industry, the Mexican government entered into a trust agreement with Nacional Financiera, S.N.C., which we refer to as Nafin, a Mexican government-owned development bank, pursuant to which Nafin acts as trustee. In addition, the Mexican government imposed a 20% excise tax, effective January 1, 2002, on carbonated soft drinks sweetened with high fructose corn syrup. As a result, we converted our Mexican bottler facilities to sugar cane-based production in early 2002. On January 1, 2003, the Mexican government broadened the reach of this tax by imposing a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener. The effect of these excise taxes was to limit our ability to substitute other sweeteners for sugar. We initiated proceedings in Mexican federal court against this excise tax that allowed us to cease paying the tax in 2005 and 2006. We also resumed the use of high fructose corn syrup as a sweetener. At the end of 2006, effective beginning in 2007, the Mexican government removed this excise tax. Recently, the government agreed to give back to the former owners the sugar mills expropriated in 2001, the process has begun and the majority of the sugar mills have being given back to their former owners.

Imported sugar is also presently subject to import duties, the amount of which is set by the Mexican government. As a result, sugar prices in Mexico are in excess of international market prices for sugar. In 2005, sugar prices remained stable after significant increases in 2004, however, in 2006 prices increased again. We expect volatility in sugar prices in Mexico in 2007 due to local regulations and other market barriers to entry.

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

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

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

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

***Brazil.*** Sugar is widely available in Brazil at local market prices, which historically have been lower than international prices. We experienced significant increases in sugar prices in the first half of the year, due to increases in oil prices. In the second half of the year sugar prices declined almost in the same proportion of the previous increase. We expect sugar prices to continue stable in Brazil during 2007. We purchase glass bottles, plastic bottles and cans from several domestic and international suppliers.

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## REGULATION

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

***Taxation of Soft Drinks.*** All the countries in which we operate, except for Panama, impose a value-added tax on the sale of soft drinks, with a rate of 15% in Mexico, 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 16% in Colombia, 14% in Venezuela, 21% in Argentina and 18% (São Paulo) and 17% (Mato Grosso do Sul) in Brazil. In addition, several of the countries in which we operate impose the following excise or other taxes:

- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.26 as of December 31, 2006) per liter of soft drink.

- Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, a 5% excise tax on local brands, a 10% tax on foreign brands and a 14% tax on mixers.

- Nicaragua imposes a 9% tax on consumption.

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

- Argentina imposes an excise tax on colas and on flavored soft drinks containing less than 5% lemon juice or less than 10% fruit juice of 8.7%, and an excise tax on flavored soft drinks with 10% or more fruit juice and on mineral water of 4.2%.

- Brazil imposes an average production tax of 16.5% and an average sales tax of 4.6% in the territories where we operate.

***Water Supply Law.*** In Mexico, we purchase water directly from municipal water companies and pump water from our own wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the *Ley de Aguas Nacionales de 1992* (the 1992 Water Law), and regulations issued thereunder, which created the *Comisión Nacional del Agua* (the National Water Commission). The National Water Commission is charged with overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run for five-, ten- or fifteen-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms to be extended upon termination. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for three consecutive years. However, because the current concessions for each of our plants in Mexico do not match each plant s projected needs for water in future years, we successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. Our concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations on a timely manner. We believe that we are in compliance with the terms of our existing concessions.

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

We do not currently require a permit to obtain water in our other territories. In Nicaragua, Costa Rica and some plants in Colombia, we own private water wells. In the remainder of our territories, we obtain water from governmental agencies or municipalities. We can give no assurances that water will be available in sufficient quantities to meet our future production needs or that additional regulations relating to water use will not be adopted in the future.

***Environmental Matters.*** In all of the countries where we operate, our businesses are subject to federal and state laws and regulations relating to the protection of the environment. In Mexico, the principal legislation is the *Ley General de Equilibrio Ecológico y Protección al Ambiente* (the Federal General Law for Ecological Equilibrium and Environmental Protection) or the Mexican Environmental Law and the *Ley General para la Prevención y Gestión Integral de los Residuos* (the General Law for the Prevention and Integral Management of Waste) which are enforced by the *Secretaría del Medio Ambiente, Recursos Naturales y Pesca* (the Ministry of the Environment, Natural Resources and Fisheries) or SEMARNAP. SEMARNAP can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have implemented several programs designed to facilitate compliance with air, waste, noise and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City. See The Company Product Distribution.

In addition, we are subject to the *Ley Federal de Derechos* (the Federal Law of Governmental Fees), also enforced by SEMARNAP. Adopted in January 1993, the law provides that plants located in Mexico City that use deep water wells to supply their water requirements must pay a fee to the city for the discharge of residual waste water to drainage. In 1995, certain municipal authorities began to test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by SEMARNAP. All of our bottler plants located in Mexico City, as well as the Toluca plant, met these new standards as of 2001. See Description of Property, Plant and Equipment.

In our Mexican operations, we built a PET recycling plant in 2004 in partnership with The Coca-Cola Company and ALPLA, which manufactures plastic bottles for us in Mexico. This plant, located in Toluca, Mexico, started operations in 2005 and has a recycling capacity of 25,000 metric tons per year from which 15,000 metric tons can be reuse 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 commited companies)

Our Central American operations are subject to several federal and state laws and regulations relating to the protection of the environment, which have been enacted in the last ten years, as awareness has increased in this region about the protection of the environment and the disposal of dangerous and toxic materials. In some countries in Central America, we are in the process of bringing our operations into compliance with new environmental laws. Also, our Costa Rica operations have participated in a joint effort along with the local division of The Coca-Cola Company called *Proyecto Planeta* (Project Planet) for the collection and recycling of non-returnable plastic bottles.

Our Colombian operations are subject to several Colombian federal, state and municipal laws and regulations related to the protection of the environment and the disposal of toxic and dangerous materials. These laws include the control of atmospheric emissions and strict limitations on the use of chlorofluorocarbons. We are also engaged in nationwide campaigns for the collection and recycling of glass and plastic bottles.

Our Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (the Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (the Substance, Material and Dangerous Waste Law), and the *Ley Penal del Ambiente* (the Criminal Environment Law). Since the enactment of the Organic Environmental Law in 1995, our Venezuelan subsidiary has presented the proper authorities with plans to bring our production facilities and distribution centers into compliance with the law. While the laws provide certain grace periods for compliance with the new environmental standards, we have had to adjust some of the originally proposed timelines presented to the authorities because of delays in the completion of some of these projects.

Our Argentine operations are subject to federal and provincial laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste water discharge, which are enforced by the *Secretaría de Recursos Naturales y Ambiente Humano* (the Ministry of Natural Resources and Human Environment) and the *Secretaría de Política Ambiental* (the Ministry of Environmental Policy) for the province of Buenos Aires. Our Alcorta plant is in compliance with waste water discharge standards.

Our Brazilian operations are subject to several federal, state and municipal laws and regulations related to the protection of the environment. Among the most relevant laws and regulations are those dealing with the emission of toxic and dangerous gases and disposal of waste water, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance. Our production plant located in Jundiaí has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant has been certified for the ISO 9000 since March 1995 and the ISO 14001 since March 1997.

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

## BOTTLER AGREEMENTS

### Coca-Cola Bottler Agreements

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers outside the United States for the sale of concentrates for certain *Coca-Cola* trademark beverages. We manufacture, package, distribute and sell soft drink beverages and bottled water under a separate bottler agreement for each of our territories.

These bottler agreements provide that we will purchase our entire requirement of concentrates for *Coca-Cola* trademark beverages from The Coca-Cola Company and other authorized suppliers at prices, terms of payment and on other terms and conditions of supply as determined from time to time by The Coca-Cola Company at its sole discretion. Concentrate prices are determined as a percentage of the weighted average retail price in local currency, net of applicable taxes. Although the price multipliers used to calculate the cost of concentrate and the currency of payment, among other terms, are set by The Coca-Cola Company at its sole discretion, we set the price of products sold to retailers at our discretion, subject to the applicability of price restraints. We have the exclusive right to distribute *Coca-Cola* trademark beverages for sale in our territories in authorized containers of the nature prescribed by the bottler agreements and currently used by our company. These containers include various configurations of cans and returnable and non-returnable bottles made of glass and plastic and fountain containers.

The bottler agreements include an acknowledgment by us that The Coca-Cola Company is the sole owner of the trademarks that identify the *Coca-Cola* trademark beverages and of the secret formulas with which The Coca-Cola Company s concentrates are made. Subject to our exclusive right to distribute *Coca-Cola* trademark beverages in our territories, The Coca-Cola Company reserves the right to import and export *Coca-Cola* trademark beverages to and from each of our territories. Our bottler agreements do not contain restrictions on The Coca-Cola Company s ability to set the price of concentrates charged to our subsidiaries and do not impose minimum marketing obligations on The Coca-Cola Company. The prices at which we purchase concentrates under the bottler agreements may vary materially from the prices we have historically paid. However, under our bylaws and the shareholders agreement among The Coca-Cola Company and certain of its subsidiaries and certain subsidiaries of FEMSA, an adverse action by The Coca-Cola Company under any of the bottler agreements may result in a suspension of certain veto rights of the directors appointed by The Coca-Cola Company. This provides us with limited protection against The Coca-Cola Company s ability to raise concentrate prices to the extent that such increase is deemed detrimental to us pursuant to the shareholder agreement and the bylaws. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.

The Coca-Cola Company has the ability, at its sole discretion, to reformulate any of the *Coca-Cola* trademark beverages and to discontinue any of the *Coca-Cola* trademark beverages, subject to certain limitations, so long as all *Coca-Cola* trademark beverages are not discontinued. The Coca-Cola Company may also introduce new beverages in our territories in which case we have a right of first refusal with respect to the manufacturing, packaging, distribution and sale of such new beverages subject to the same obligations as then exist with respect to the *Coca-Cola* trademark beverages under the bottler agreements. The bottler agreements prohibit us from producing or handling cola products other than those of The Coca-Cola Company, or other products or packages that would imitate, infringe upon, or cause confusion with the products, trade dress, containers or trademarks of The Coca-Cola Company, or from acquiring or holding an interest in a party that engages in such activities. The bottler agreements also prohibit us from bottling any soft drink product except under the authority of, or with the consent of, The Coca-Cola Company. The bottler agreements impose restrictions concerning the use of certain trademarks, authorized containers, packaging and labeling of The Coca-Cola Company so as to conform to policies prescribed by The Coca-Cola Company. In particular, we are obligated to:

- maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the Coca-Cola trademark beverages in authorized containers in accordance with our bottler agreements and in sufficient quantities to satisfy fully the demand in our territories;

- undertake adequate quality control measures prescribed by The Coca-Cola Company;

- develop, stimulate and satisfy fully the demand for Coca-Cola trademark beverages using all approved means, which includes the investment in advertising and marketing plans;

- maintain a sound financial capacity as may be reasonably necessary to assure performance by us and our affiliates of our obligations to The Coca-Cola Company; and

- submit annually to The Coca-Cola Company our marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2006, a period in which we also contributed to The Coca-Cola Company s marketing expenses and has reiterated its intention to continue providing such support as part of our new cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so.Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement and Item 7. Major Shareholders and Related Party Transactions Major Shareholders New Cooperation Framework with The Coca-Cola Company.

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

| Segment | Expiration Date | Renewal/Termination Provision |
|---|---|---|
| **Mexico** | For two territories June 2013 | 10 years, renewable automatically. |
| | For two territories May 2015 | 10 years, renewable automatically. |
| **Central America** | Guatemala June 2007 | Renewable as agreed between the parties. |
| | Nicaragua June 2007 | Five years, requires notice at least six but not more than 12 months before expiration date. |
| | Costa Rica September 2007 | Five years, requires notice at least six but not more than 12 months before expiration date. |
| | Panama For *Coca-Cola* trademark beverages Indefinite. | May be terminated by either party with six months prior written notice. |
| | Panama For other beverages June 2007 | Five years, requires notice at least six but not more than 12 months before expiration date. |

| | | |
|---|---|---|
| **Colombia** | June 2007 | Five years, requires notice at least six but not more than 12 months before expiration date. |
| **Venezuela** | For *Coca-Cola* trademark beverages August 2006(1) | Five years, requires notice at least six but not more than 12 months before expiration date. |
| | For other beverages August 2006(1) | Renewable as agreed between the parties. |
| **Argentina** | September 2014 | 10 years, renewable automatically. |
| **Brazil** | December 2004(1) | Five years, requires notice at least six but not more than 12 months before expiration date. |

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

The bottler agreements are subject to termination by The Coca-Cola Company in the event of default by us. The default provisions include limitations on the change in ownership or control of our company and the assignment or transfer of the bottler agreements and are designed to preclude any person not acceptable to The Coca-Cola Company from obtaining an assignment of a bottler agreement or from acquiring our company independently of similar rights set forth in the shareholders agreement. These provisions may prevent changes in our principal shareholders, including mergers or acquisitions involving sales or dispositions of our capital stock, which will involve an effective change of control, without the consent of The Coca-Cola Company. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders The Shareholders Agreement.

We have also entered into tradename licensing agreements with The Coca-Cola Company pursuant to which we are authorized to use certain trademark names of The Coca-Cola Company. These agreements have an indefinite term, but are terminated if we cease to manufacture, market, sell and distribute *Coca-Cola* trademark products pursuant to the bottler agreements or if the shareholders agreement is terminated. The Coca-Cola Company also has the right to terminate the license agreement if we use its trademark names in a manner not authorized by the bottler agreements.

**DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT**

Over the past several years, we made significant capital improvements to modernize our facilities and improve operating efficiency and productivity, including:

- increasing the annual capacity of our bottler plants;
- installing clarification facilities to process different types of sweeteners;
- installing plastic bottle-blowing equipment and can presentation capacity;
- modifying equipment to increase flexibility to produce different presentations, including swing lines that can bottle both non-returnable and returnable presentations; and
- closing obsolete production facilities.

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

As of December 31, 2006, we owned 31 bottler plants company wide. By country, we have twelve bottler facilities in Mexico, five in Central America, six in Colombia, four in Venezuela, three in Brazil and one in Argentina.

Since the Panamco acquisition in May 2003, we consolidated 22 of our plants into existing facilities including four plants in Mexico, one in Central America, eleven in Colombia, five in Venezuela and one in Brazil. During the same period, we have increased our productivity measured in unit cases sold by our remaining plants by more than 80% company wide as of December 31, 2006.

As of December 31, 2006 we operated 206 distribution centers, almost 45% of which were in our Mexican territories. We own more than 80% of these distribution centers and lease the remainder. See The Company Product Distribution.

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

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

**Production Facility Summary**
**As of December 31, 2006**

| Country | Principal Use | Installed Capacity (thousands of unit cases) | % Utilization(1) |
|---|---|---|---|
| Mexico | Bottler Facility | 1,565,921 | 68% |
| Guatemala | Bottler Facility | 30,770 | 77% |
| Nicaragua | Bottler Facility | 66,705 | 44% |
| Costa Rica | Bottler Facility | 58,877 | 56% |
| Panama | Bottler Facility | 52,559 | 39% |
| Colombia | Bottler Facility | 265,123 | 72% |
| Venezuela | Bottler Facility | 276,534 | 64% |
| Argentina | Bottler Facility | 194,548 | 78% |
| Brazil | Bottler Facility | 447,922 | 69% |

(1) Annualized rate.

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

**Production Facility by Location**
**As of December 31, 2006**

| Country | Plant | Facility Area (thousands of sq. meters) |
|---|---|---|
| Mexico | San Cristóbal de las Casas, Chiapas | 45 |
| | Cedro, Distrito Federal | 18 |
| | Cuautitlán, Estado de México | 35 |
| | Los Reyes la Paz, Estado de México | 50 |
| | Toluca, Estado de México | 242 |
| | Celaya, Guanajuato | 87 |
| | León, Guanajuato | 38 |
| | Morelia, Michoacán | 50 |
| | Juchitán, Oaxaca | 27 |
| | Ixtacomitán, Tabasco | 90 |
| | Apizaco, Tlaxcala | 80 |
| | Coatepec, Veracruz | 142 |
| Guatemala | Guatemala City | 46 |
| Nicaragua | Managua | 60 |
| Costa Rica | San José | 52 |
| Panama | Panama City | 29 |
| Colombia | Barranquilla | 27 |
| | Bogotá | 84 |
| | Bucaramanga | 26 |
| | Cali | 87 |
| | Manantial | 67 |
| | Medellín | 45 |
| Venezuela | Antímano | 14 |
| | Barcelona | 141 |
| | Maracaibo | 68 |
| | Valencia | 100 |
| Argentina | Alcorta | 73 |
| Brazil | Campo Grande | 36 |
| | Jundiaí | 191 |
| | Moji das Cruzes | 95 |

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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, 2006:

| Name of Company | Jurisdiction of Incorporation | Percentage Owned |
|---|---|---|
| Propimex, S.A. de C.V | Mexico | 100.00% |
| Corporación Interamericana de Bebidas, S.A. de C.V | Mexico | 100.00% |
| Panamco México, S.A. de C.V | Mexico | 99.24% |
| Kristine Oversease, S.A. de C.V. (holding company of Brazilian operations) | Mexico | 83.11% |
| Industria Nacional de Gaseosas, S.A. (holding company of our Colombian operations) | Colombia | 97.66% |

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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 significant respects from U.S. GAAP. Notes 25 and 26 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 stockholders equity.

In accordance with Mexican Financial Reporting Standards, for financial reporting purposes, we used the official exchange rate of 2,150 Venezuelan bolivares per U.S. dollar to translate the financial information of our subsidiaries in Venezuela to Mexican pesos

***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 of operations are affected by changes in economic conditions in Mexico and in the other countries in which we operate. For the years ended December 31, 2006, 2005 and 2004, 52.6%, 55.3%, and 56.1%, respectively, of our net sales were attributable to Mexico. In addition to Mexico, we also conduct operations in Central America, Colombia, Venezuela, Argentina and Brazil.

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

### Critical Accounting Estimates

The preparation of our consolidated financial statements requires that we make estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities as of the date of the financial statements and (3) the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience and on various other reasonable factors, which together form the basis for making judgments about the carrying values of our assets and liabilities. Our actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an on-going basis. Our significant accounting policies are described in 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 contemplates our historical loss rate on receivables and the economic environment in which we operate. Most of our sales, however, are realized in cash and do not give rise to doubtful accounts.

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

We classify returnable bottles and cases that are in our control in our facilities or under a loan to customers as fixed assets in accordance with industry practice. We expense breakage as incurred for these bottles and cases. We periodically compare this breakage expense with a depreciation expense calculated on the basis of estimated useful life, which is four years in most cases for returnable glass bottles, one year for returnable plastic bottles and four years for returnable cases. These useful lives are determined in accordance with our business experience. Historically, the annual calculated depreciation expense has been similar to the annual book breakage expense. Whenever we decide to discontinue a particular returnable presentation and retire it from the market, we write-off the discontinued presentation through an increase in the breakage expense. We determine depreciation of bottles and cases only for tax purposes in Mexico and some other countries.

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

We describe the methodology used to restate imported equipment in Note 4(e) to our consolidated financial statements, which includes applying the exchange and inflation rates of the country of origin utilized as permitted by Mexican Financial Reporting Standards. We believe this method more accurately presents the fair value of the assets than restated cost determined by applying inflation factors.

We include refrigeration equipment in other assets and record it initially at the cost of acquisition. Equipment of domestic origin is restated by applying domestic inflation factors. Imported equipment is restated by applying the inflation rate of the country of origin and then translated at the year-end exchange rate. Refrigeration equipment is amortized based on an estimated average useful life of approximately seven years for Mexico in 2006 and five years in 2005 and 2004, and five years for all other countries. We expect to review the useful lives for these other countries in 2007. The change in the estimated useful life of Mexican refrigeration equipment beginning January 1, 2006 is based on external studies conducted by third parties. This change in accounting estimate is accounted for prospectively from the date of the change. The impact of the change in the estimated useful life was a reduction of Ps. 127 million in amortization expense for 2006. Major refrigeration equipment repairs were initiated in Mexico in 2004. These repairs are capitalized and amortized over a two-year period net of the undepreciated value of the parts replaced.

***Valuation of Intangible Assets and Goodwill.*** As we discuss in Note 4(i) to our consolidated financial statements, beginning in 2003 we applied Bulletin C-8, *Activos Intangibles* (Intangible Assets), which establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Additionally, Bulletin C-8 requires identifying all intangible assets to reduce as much as possible the goodwill associated with business combinations. Prior to 2003, the excess of the purchase price over the fair value of the net assets acquired in a business combination was considered to be goodwill. With the adoption of Bulletin C-8, we consider such excess as intangible assets that relate to the rights to produce and distribute *Coca-Cola* trademark beverages. We separate intangible assets between those with a finite useful life and those with an indefinite useful life, in accordance with the period over which we expect to receive the benefits.

We valued at fair value all of Panamco s assets and liabilities as of the date of the acquisition (May 2003) and, as required by Bulletin C-8, we conducted an analysis of the excess purchase price over the fair value of the net assets. The analysis resulted in the recognition of an intangible asset with indefinite life in the amount of Ps. 38,957 million for the right to produce and distribute *Coca-Cola* trademark beverages, which will be subject to annual impairment tests, under U.S. GAAP and Mexican Financial Reporting Standards. The fair value of the assets and liabilities was determined based on the following:

- The fair value of the assets acquired (determined as the value of the fixed assets, the returnable bottles and the coolers considering (1) their remaining useful lives, (2) their general operational condition at the acquisition date, (3) certain operational and strategic decisions implemented when we assumed control of the operations and (4) compliance with our accounting policies and estimates).

- The fair value of long-term debt.

- Labor and other liabilities (severance of personnel and other obligations generated by Panamco s operations before we assumed control).

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

Intangible assets are recorded in the functional currency of the subsidiary in which the investment was made and are restated by applying the inflation rate of the country of origin and the year-end exchange rate.

Under U.S. GAAP, SFAS No. 142, *Goodwill and Other Intangible Assets,*effective in 2002, goodwill and intangible assets are no longer subject to amortization, but instead are subject to an initial impairment review and subsequent impairment test. This test is performed annually unless an event occurs or circumstances change by which it becomes more likely than not that a reporting unit will reduce its fair value below its carrying amount, in which case an interim impairment test is performed. Our impairment review indicates that no impairment charge is required as of the end of 2006.

Historically, all of our bottler agreements have been renewed, and we have not experienced any cases of termination. 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. We thereof consider such agreements as intangible assets with indefinite life.

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

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

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

We evaluate our assumptions at least annually. Those assumptions are described in Note 14 to our consolidated financial statements and include the discount rate, expected long-term rate of return on plan assets, rates of increase in compensation costs and certain employee-related factors, such as turnover, retirement age and mortality. The assumptions include the economic risk involved in the countries in which our business operates.

In accordance with Mexican 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 pension obligations and our future expense.

The following table is a summary of the three key assumptions to be used in determining 2007 annual pension expense, along with the impact on pension expense of a 1% change in each assumed rate:

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| Assumption | 2007 rate (in real terms) (1) | Impact of 1% change (millions) (2) |
|---|---|---|
| Discount rate | 4.5% | + Ps. (122)<br>- Ps. 151 |
| Salary growth rate | 1.5% | + Ps. 143<br>- Ps. 117 |
| Long-term asset return | 4.5%(3) | + Ps. 22<br>- Ps. 14 |

(1) Calculated using a measurement date of December 2006.

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

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

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

***Income taxes.*** We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. If these estimates and related assumptions change in the future, we may be required to record additional valuation allowances against our deferred tax assets resulting in additional income tax expense.

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

**New Accounting Pronouncements**

The following new financial reporting standards have been issued under Mexican Financial Reporting Standards, the application of which is required for fiscal years beginning on or after January 1, 2007. We are in the process of determining the impact of adopting these new financial reporting standards on its consolidated financial position and results of operations.

Financial Reporting Standard B-3, Income Statement. This new standard establishes general guidance for the composition and presentation of the income statement. The most significant changes established by this standard are as follows: (1) a description of each section of the income statement, (2) establishment of criteria to classify costs and expenses in the income statement based on their origin (by function, based on the company s operations, or both), and (3) presentation of employee profit sharing as part of other expenses instead of being presented with income taxes.

Financial Reporting Standard B-13, Subsequent Events. This new standard establishes general guidance for subsequent events. The most significant changes to existing guidance are: (1) the restructuring of assets and liabilities must be recorded and disclosed within the notes to financial statements in the period such transactions occur, (2) creditor defeasances must be disclosed within the notes to financial statements, and (3) companies must disclose in a footnote to their financial statements the date such statements were authorized.

Financial Reporting Standard C-13, Related Parties. This new standard establishes general guidance for the disclosure of balances and transactions with related parties. The most significant changes are: (1) definition of a related party as those businesses in which the company participates, relatives of company management and amounts included in trust assets held by the company; (2) requiring the company to disclose any business relationships with its subsidiaries; (3) requiring the company to disclose the conditions established in transactions among related parties when such terms

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are similar to those transactions entered into with other independent parties, and (4) disclosing in detail all benefits provided to company management. This new standard also includes an appendix describing scenarios considered to be related party transactions.

Financial Reporting Standard D-6, Capitalization of Integral Result of Financing. This new standard establishes general guidance for capitalizing the integral result of financing as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time to get them ready for their intended use. The most significant changes are: (1) establishing criteria for mandatory capitalization of the integral result of financing, (2) clarifying that costs related to stockholders equity are not part of the integral result of financing, (3) establishing the concept of a period of time a company requires to get an asset ready for its intended use, and (4) establishing general guidance for the capitalization of local currency financing, foreign currency financing, or both.

The following new accounting standards have been issued under U.S. GAAP, the application of which is required as indicated. We are in the process of determining the impact of adopting these new accounting principles on its consolidated financial position and results of operations.

Statement in Financial Accounting Standards ( SFAS ) No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 . This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This statement: (1) permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only strips and principal-only strips are not subject to SFAS No. 133 requirements, (3) establishes requirements to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, (5) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006.

SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140 . This Statement amends SFAS No. 140, with respect to the accounting for separately recognized servicing assets and servicing liabilities, and establishes that entities must recognize servicing assets or servicing liabilities each time they undertake an obligation to service a financial asset by entering into a servicing contract in some specific situations. This Statement also requires recognizing separately servicing assets and servicing liabilities to be initially measured at fair value, if practicable. It also permits an entity to choose either the amortization method or the fair value measurement method to recognize servicing assets and servicing liabilities. This Statement is effective as of the beginning of first fiscal year that begins after September 15, 2006.

SFAS No. 157, Fair Value Measurements . This statement establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) . This Statement requires companies to (1) fully recognize, as an asset or liability, the over funded or under funded status of defined pension and other postretirement benefit plans; (2) recognize changes in the funded status through other comprehensive income in the year in which the changes occur; (3) measure the funded status of defined pension and other postretirement benefit plans as of the date of the company s fiscal year-end; and (4) provide enhanced disclosures. The provisions of this statement are effective for an employer with publicly traded equity securities, or controlled subsidiaries of such companies, in fiscal years ending after December 15, 2006. In addition, a company must now measure the fair value of its plan assets and benefit obligations as of the date of its year-end balance sheet. A company is no longer permitted to measure the funded status of its plan(s) by being able to choose a measurement date up to three months prior to year end. This provision within the standard is effective for all

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companies in fiscal years ending after December 15, 2008. The impact of adopting this new accounting principle is disclosed in Note 25 to our consolidated financial statements.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 , or FIN No. 48. This interpretation provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in a company s financial statements in accordance with SFAS No.109, *Accounting for Income Taxes*. FIN No. 48 requires a company to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. Any difference between the tax position taken in the tax return and the tax position recognized in the financial statements using the criteria above results in the recognition of a liability in the financial statements for the unrecognized benefit. Similarly, if a tax position fails to meet the more-likely-than-not recognition threshold, the benefit taken in tax return will also result in the recognition of a liability in the financial statements for the full amount of the unrecognized benefit. FIN No. 48 will be effective for fiscal years beginning after December 15, 2006 (including the first interim period for calendar year companies) and the provisions of FIN No. 48 will be applied to all tax positions under SFAS No. 109 upon initial adoption. The cumulative effect of applying the provisions of this interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year.

Emerging Issues Task Force 06-3, How Taxes are Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) , or EITF 06-3. The scope of this issue includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added and some excise taxes. The Task Force reached a consensus that the presentation of taxes mentioned above on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The disclosure of those taxes can be done on an aggregate basis. This consensus requires only the presentation of additional disclosures, as a result an entity would not be required to reevaluate its existing policies related to taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer. However, if a company chooses to reevaluate its existing policies and elects to change the presentation of taxes within the scope of this Issue must follow the requirements of SFAS No. 154. The consequences in this issue should be applied to financial reports for interim and annual reporting periods beginning after December 15, 2006. Earlier application is permitted.

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**Results of Operations**

The following table sets forth our consolidated income statement for the years ended December 31, 2006, 2005 and 2004:

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | **2006(1)** | **2006** | **2005** | **2004** |
| | (in millions of U.S. dollars or millions of constant Mexican pesos at December 31, 2006, except per share data) | | | |
| Revenues: | | | | |
| Net sales | $ 5,328 | Ps. 57,539 | Ps. 53,601 | Ps. 50,899 |
| Other operating revenues | 18 | 199 | 396 | 377 |
| Total revenues | 5,346 | 57,738 | 53,997 | 51,276 |
| Cost of sales | 2,796 | 30,196 | 27,522 | 26,227 |
| Gross profit | 2,550 | 27,542 | 26,475 | 25,049 |
| Operating expenses: | | | | |
| Administrative | 297 | 3,201 | 3,026 | 3,033 |
| Selling | 1,378 | 14,885 | 14,231 | 13,557 |
| | 1,675 | 18,086 | 17,257 | 16,590 |
| Income from operations | 875 | 9,456 | 9,218 | 8,459 |
| Integral result of financing: | | | | |
| Interest expense | 197 | 2,124 | 2,591 | 2,753 |
| Interest income | (29) | (315) | (311) | (317) |
| Foreign exchange loss (gain), net | 21 | 229 | (199) | 42 |
| Gain on monetary position | (94) | (1,016) | (853) | (1,627) |
| Market value loss on ineffective portion of derivative financial instruments | 10 | 113 | 53 | - |
| | 105 | 1,135 | 1,281 | 851 |
| Other expenses, net | 61 | 661 | 336 | 432 |
| Income before taxes and employee profit sharing | 709 | 7,660 | 7,601 | 7,176 |
| Taxes and employee profit sharing | 241 | 2,607 | 2,741 | 1,201 |
| Consolidated net income | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| before change in accounting principle | | 468 | | 5,053 | | 4,860 | | 5,975 |
| Change in accounting principle | | - | | - | | (23) | | - |
| Net income for the year | $ | 468 | Ps. | 5,053 | Ps. | 4,883 | Ps. | 5,975 |
| Majority net income | $ | 452 | Ps. | 4,883 | Ps. | 4,759 | Ps. | 5,946 |
| Minority net income | | 16 | | 170 | | 124 | | 29 |
| Weighted average shares outstanding (in millions) | | 1,846.5 | | 1,846.5 | | 1,846.5 | | 1,846.4 |
| Majority net income per share (basic and diluted) | $ | 0.24 | Ps. | 2.64 | Ps. | 2.58 | Ps. | 3.22 |

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 10.7995 per US$ 1.00 solely for the convenience of the reader.

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**Results of Operations by Segment**

The following table sets forth certain financial information for each of our segments for the years ended December 31, 2006, 2005 and 2004. See Note 24 to our consolidated financial statements for additional information by segment.

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2004 | |
| | (millions of Mexican Pesos) | | | | | |
| **Total revenues** | | | | | | |
| Mexico | Ps. | 30,360 | Ps. | 29,662 | Ps. | 28,595 |
| Central America[1] | | 4,142 | | 3,636 | | 3,736 |
| Colombia | | 5,507 | | 5,084 | | 4,646 |
| Venezuela | | 6,532 | | 5,875 | | 5,563 |
| Argentina | | 3,281 | | 3,090 | | 2,871 |
| Brazil | | 7,916 | | 6,650 | | 5,865 |
| **Gross profit** | | | | | | |
| Mexico | Ps. | 16,063 | Ps. | 15,732 | Ps. | 15,081 |
| Central America[1] | | 1,932 | | 1,743 | | 1,800 |
| Colombia | | 2,440 | | 2,293 | | 2,158 |
| Venezuela | | 2,478 | | 2,369 | | 2,330 |
| Argentina | | 1,292 | | 1,214 | | 1,123 |
| Brazil | | 3,337 | | 3,124 | | 2,557 |
| **Income from operations** | | | | | | |
| Mexico | Ps. | 6,390 | Ps. | 6,368 | Ps. | 6,040 |
| Central America[1] | | 613 | | 497 | | 446 |
| Colombia | | 727 | | 575 | | 494 |
| Venezuela | | 169 | | 277 | | 437 |
| Argentina | | 419 | | 466 | | 448 |
| Brazil | | 1,138 | | 1,035 | | 594 |

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

**Results of Operations for Year Ended December 31, 2006 Compared to Year Ended December 31, 2005**

**Consolidated Results of Operations**

***Total Revenues.*** Consolidated total revenues grew 6.9% to Ps. 57,738 million in 2006, compared to Ps. 53,997 million in 2005. The majority of the growth came from Brazil, Venezuela and Mexico, which accounted for 34%, 18% and 17% of the total incremental revenues, respectively.

Consolidated sales volume reached 1,998.1 million unit cases in 2006 compared to 1,889.2 million unit cases in 2005, an increase of 5.8% . Carbonated soft drink volume grew 5.8% as a result of sales volume increases in all of our territories. Carbonated soft drink volume growth was mainly driven by the *Coca-Cola* brand, which accounted for close 70% of incremental volume. A strong marketing campaign, combined with our multi-segmentation strategies, contributed to this growth.

Consolidated average price per unit case remained flat in real terms at Ps. 28.36 in 2006 as compared to Ps. 28.37 in 2005. Price increases implemented during the year, mainly in Venezuela, Central America, Brazil and Colombia, combined with a better packaging and product mix in Central America, Colombia and Venezuela offset price declines in Mexico and Argentina.

***Gross Profit***. Our gross profit increased 4.0% to Ps. 27,542 million in 2006, compared to Ps. 26,475 million in 2005. Brazil and Mexico accounted for over 45% of this growth. Gross margin decreased 130 basis points as a result of higher cost per unit case in all of our territories, except Mexico and Argentina. Higher sweetener costs in all of our operations, combined with higher prices for plastic bottles in some of our territories and higher packaging costs due to a packaging mix shift towards non-returnable presentations, more than offset higher revenues.

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

***Operating Expenses***. Consolidated operating expenses as a percentage of total revenues declined to 31.3% in 2006 from 32.0% in 2005 due to higher fixed-cost absorption driven by incremental volumes and higher average price per unit case. Operating expenses in absolute terms increased 4.8% year over year mainly as a result of (1) salary increases ahead of inflation in some of the countries in which we operate, (2) higher operating expenses due to increases in maintenance expenses and freight costs in some territories, and (3) higher marketing investment in our major operations in connection with several initiatives intended to reinforce our presence in the market, and build brand equity.

After conducting a thorough analysis, done by a third party, of the current conditions and expected useful life of our cooler inventories in our territories in Mexico, we decided to modify the useful life of our coolers from five to seven years in Mexico. We made this decision based on our equipment maintenance policy and our ability to better manage our cooler platform in the market place. This modification reduced our amortization expenses by Ps. 127 million in 2006, all of which was recognized in the fourth quarter, and increased our operating income by a similar amount. Excluding this change, our operating expenses would have increased by 5.5% during 2006.

We incur various expenses related to the distribution of our products. We include these types of costs in the selling expenses line of our income statement. During 2006 and 2005, our distribution costs amounted to Ps. 7,816 million and Ps. 7,433 million, respectively. The exclusion of these charges from our cost of sales line may result in the amounts reported as gross profit not being comparable to other companies, which may include all expenses related to their distribution network in cost of sales when computing gross profit (or an equivalent measure).

***Income from Operations***. Our consolidated operating income increased 2.6% to Ps. 9,456 million in 2006, compared with 2005, as a result of higher fixed-cost absorption due to higher revenues. Growth in operating income in Colombia, Central America and Brazil more than compensated for an operating income decline in Venezuela and Argentina. Our overall operating margin decreased 70 basis points to 16.4% during 2006 mainly due to higher cost per unit case. Excluding the adjustment mentioned above relate to the use of life of our coolers our operating income would have increased by 1.2% in 2006.

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

In 2006 our integral cost of financing decreased 11.4% to Ps. 1,135 million as compared to Ps. 1,281 million in 2005, mainly driven by by lower interest expenses due to a decline in our debt position, which more than offset a foreign exchange loss resulting from the depreciation of the Mexican peso against the U.S. dollar as applied to our net liability position denominated in foreign currency, compared to a gain, recorded in 2005, derived from the appreciation of the Mexican peso against the U.S. dollar, as applied to our U.S. dollar-denominated debt.

***Other Expenses***. Other expenses increased to Ps. 661 million in 2006 from Ps. 336 million in 2005, mainly driven by one-time costs associated with restructuring initiatives in some of our operations.

***Income Taxes and Employee Profit Sharing***. Income taxes and employee profit sharing decreased to Ps. 2,607 million in 2006 from Ps. 2,741 million in 2005. During 2006, income tax and employee profit sharing as a percentage of income before taxes was 34.0% as compared to 36.1% in 2005. During the year, our effective tax rate was benefited by a reduction in the statutory tax rates in some of our operations and the benefit from recognition of tax loss carryforwards, resulting in a reduction in our effective tax rate.

***Net Income***. Our consolidated net majority income was Ps. 4,883 million during 2006, an increase of 2.6% compared to 2005, driven by (1) higher operating income, (2) lower interest expense, and (3) a reduction in our effective tax rate. Earnings per share ( EPS ) were Ps. 2.64 (US$ 2.45 per ADS), computed on the basis of 1,846.5 million shares outstanding (each ADS represents 10 local shares).

**Consolidated Results Of Operations By Geographic Segment**

**Mexico**

***Total Revenues.*** Total revenues in Mexico were Ps. 30,360 million in 2006, compared to Ps. 29,662 million in 2005, an increase of 2.4%, driven by 4.5% total sales volume growth, which more than compensated for lower average price per unit case. Average price per unit case was Ps. 28.29 in 2006, a decrease of 2.1% compared to Ps. 28.90 in 2005. Carbonated soft drinks average price per unit case was Ps. 32.51 during 2006, a 2.0% decline as compared to 2005.

Total sales volume reached 1,070.7 million unit cases in 2006, an increase of 4.5% compared to 2005, driven by (1) 4.4% sales volume growth of the carbonated soft drinks segment, accounting for more than 75% of the incremental volumes for the year, (2) strong volume growth in the non-flavored water category, and (3) strong volume growth in the non-carbonated beverages segment. Carbonated soft drinks volume growth was mainly driven by incremental volumes of the *Coca-Cola* brand, which contributed to more than 90% percent of total carbonated soft drinks incremental volumes.

***Income from Operations*****.** Gross profit totaled Ps. 16,063 million, representing a gross margin of 52.9% in 2006, a decrease of 50 basis points as compared to 2005, driven by lower average prices per unit case, which more than offset a slight improvement in average cost per unit case. Resin price decreases more than offset higher sweetener costs during the year and the depreciation of the Mexican peso as applied to our U.S. dollar denominated costs, resulting in the slight improvement in average cost per unit case.

Our operating income in 2006 was Ps. 6,390 million, compared to Ps. 6,368 in 2005, representing a slight increase. However lower average prices per unit case combined with higher operating expenses due to additional investment in information technology and non-recurring expenses resulted in an operating margin decline from 21.5% in 2005 to 21.1% . As mentioned above, during the year we decided to modify the useful life of our coolers from five to seven years. This modification reduced our amortization expenses by Ps. 127 million in 2006 and increased our operating income by a similar amount. Excluding this change, our Mexican operating expenses would have increased by 4.7% mainly due to higher marketing expenses, in addition to the reasons described above, and our operating income would have decreased by 1.6% for the year.

**Central America**

***Total Revenues***. Total revenues in Central America were Ps. 4,142 million in 2006, an increase of 14.0% as compared to 2005, mainly driven by incremental sales volume, which accounted for over 70% of the revenue growth, and higher average prices per unit case comprised the balance. Average price per unit case increased 3.9% to Ps. 34.09, mainly as a result of price increases implemented during the year and incremental volumes in non-returnable packages, which carry a higher average price per unit case.

Total sales volume was 120.3 million unit cases in 2006, a 10.0% growth as compared to the previous year as a result of strong volume increases in Nicaragua and Costa Rica, which together accounted for over 80% of the incremental sales volume. Carbonated soft drinks volume increased 6.7% in the year, contributing to over 60% of our growth in the region, and non-carbonated beverages, excluding non-flavored water, accounted for the majority of the balance.

***Income from Operations***. Gross profit totaled Ps. 1,932 million in 2006, an increase of 10.8% as compared to 2005, mainly driven by higher revenues. Higher sweetener costs and packaging due to a packaging mix shift towards non-returnable presentations, which carry higher cost, more than offset operating leverage achieved during the year due to higher revenues, resulting in a margin decline of 130 basis points to 46.6% in 2006.

Operating income reached Ps. 613 million in 2006, resulting in an operating income margin of 14.8%, an improvement of 120 basis points as compared to 2005, driven by higher fixed-cost absorption.

**Colombia**

***Total Revenues***. Total revenues in Colombia reached Ps. 5,507 million in 2006, an increase of 8.3% as compared to 2005. Over 70% of revenue growth was driven by incremental volume, and higher average price per unit case represented the balance. Average price per unit case reached Ps. 28.83 for 2006, compared to Ps. 28.28 in 2005, recording an increase of 1.9% as a consequence of price increases implemented during the year as well as volume growth of the *Coca-Cola* brand in non-returnable presentations, which carry higher average price per unit case and constituted the majority of the incremental volumes.

Total sales volume was 190.9 million unit cases in 2006, an increase of 6.2% as compared to 2005, mainly driven by 10% volume growth in the *Coca-Cola* brand, which more than offset a decline in flavored carbonated soft drinks. Non-flavored bottled water volumes grew 5.5% in 2006 as compared to 2005. The growth of Coca-Cola brand was driven by the successful implementation of our multi-segmentation strategy.

***Income from Operations***. Gross profit totaled Ps. 2,440 million in 2006, an increase of 6.4% as compared to 2005. As percentage of total revenues, our gross margin decline of 80 basis points to 44.3% for the year as compared to 45.1% in 2005. Higher packaging costs, driven by a packaging mix shift towards non-returnable plastic bottle presentations, which accounted for the majority of the growth during year and higher sweetener costs, were partially offset by savings achieved from the light-weighting bottle initiative.

Operating income totaled Ps. 727 million, an increase of 26.4%, reaching an operating margin of 13.2%, a margin improvement of 190 basis points as compared to 2005, driven by improvements in our distribution network and higher fixed cost absorption due to higher revenues.

**Venezuela**

***Total Revenues***. Total revenues in Venezuela increased by 11.2% to Ps. 6,532 million in 2006, as compared to Ps. 5,875 million in 2005. Volume growth and average price increases, driven by a favorable product and packaging mix shift, contributed equally to our incremental revenues in the year. Average price per unit case increased by 5.1% to Ps. 35.68 in 2006 as compared to 2005, as a result of price increases implemented during the year and incremental volumes coming from non-returnable core brands, which carry higher average prices per unit case.

During 2006, our sales volume grew 5.9% as compared to 2005, reaching 182.6 million unit cases. Carbonated soft drink volume increase of 7.2%, mainly driven by flavored carbonated soft drinks, more than offset a decline in the non-flavored bottled water sales volume in the jug presentation. Non-carbonated beverages sales volume, excluding non-flavored water, grew 8.3% in 2006 as compared to 2005, reaching 4.8% of our total volumes for the year, mainly driven by the growth of the ready-to-drink tea brand *Nestea*.

***Income from Operations.*** Gross profit totaled Ps. 2,478 million in 2006, representing a gross margin of 37.9% as compared to 40.3% in 2005, a decrease of 240 basis points. This decline was a result of higher raw material prices, salary increases ahead of inflation and higher packaging costs. Higher packaging costs were driven by a shift in packaging mix towards non-returnable presentations, which grew as a percentage of our total sales volume to 81.1% in 2006 from 72.2% in 2005.

Operating expenses increased 10.4% in 2006 due to salary increases implemented during the year and higher maintenance and freight costs. Operating income totaled Ps. 169 million in 2006, a decrease from Ps. 277 million in 2005, resulting in an operating margin of 2.6% as compared to 4.7% in 2005. The decrease was a result of a reduction in gross profit and increases in operating expenses.

**Argentina**

***Total Revenues***. Total revenues in Argentina reached Ps. 3,281 million, a 6.2% increase as compared to 2005, driven by sales volume growth, which more than compensated for the decline in average price per unit case. During 2006, our average price per unit case declined 0.9% as compared to the previous year, to Ps. 19.68 from Ps. 19.85 in 2005. Product mix shift towards core and premium brands in single-serve packages, which carry higher average prices per unit case, only partially offset yearly inflation.

Total sales volume reached 164.9 million unit cases in 2006, an increase of 9.9% over 2005. In 2006, volume growth came from our core and premium brands, which more than offset the volume decline of our value protection brands, which decreased from 13.3% of total volume in 2005 to 12.1% in 2006. The *Coca-Cola* brand accounted for over 65% of our incremental volumes in the year and flavored carbonated beverages represented the majority of the balance. Non-carbonated beverages, excluding non-flavored bottled water, more than doubled in sales volume during the year from a very low base in 2005, driven by incremental volume growth in the juice-based and flavored water products under the *Cepita* brand and the introduction of a no-calorie flavored water product under the *Dasani* brand.

***Income from Operations***. Gross profit totaled Ps. 1,292 million in 2006, an increase of 6.4% as compared with the previous year. Increases in labor costs and higher resin and sweetener prices were offset by higher fixed-cost absorption due to higher revenues, resulting in a stable gross margin of 39.4% in 2006 compared with a 39.3% gross margin in 2005.

Operating expenses increased 16.7% in 2006 as compared to 2005, mainly due to higher freight costs and salaries, resulting in a 10.1% decline in our operating income to Ps. 419 million as compared to the previous year. Our operating income margin decreased 230 basis points to 12.8% in 2006 from 15.1% in 2005.

**Brazil**

In January 2006, FEMSA Cerveza acquired an indirect controlling stake in Kaiser. As of February 2006, Coca-Cola FEMSA has subsequently agreed to continue to distribute the Kaiser beer portfolio and to resume the sales function in São Paulo, Brazil, consistent with the arrangements in place prior to 2004. Beer sales volume is not included in our sales volume for the 2006 period, although net revenues and costs from beer sales are recorded in our income statement. In 2005, we did not include beer that we distributed in Brazil in our sales volumes or record net revenues and costs in our income statement. Instead, the net amount we received for distributing beer in Brazil is included in other revenues. Therefore, financial information for 2006 and 2005 is not comparable.

***Net Revenues***. Net revenues in Brazil reached Ps. 7,879 million in 2006, an increase of 18.5% as compared to 2005. Excluding beer, net revenues increased 8.4% to Ps. 7,014 million in 2006, as compared to the same period of 2005. Volume growth accounted for more than 75% of the incremental net revenues excluding beer. Excluding beer, average price per unit case increased 1.8% to Ps. 26.10 during 2006, driven by a product mix shift towards the core brands, which carry higher average prices per unit case. Total revenues from beer were Ps. 865 million in 2006.

Total sales volume excluding beer increased 6.4% to 268.7 million unit cases in 2006. The majority of this growth came from our carbonated soft drinks, which contributed to over 80% of our incremental volumes, with non-flavored bottled water growth representing the balance. Carbonated soft drinks posted a 5.7% growth in 2006, driven by the *Coca-Cola* brand. During 2006, returnable presentations reached 10.5% of our total sales volume, as compared to 8.1% in 2005 driven by the successful performance of the 1.0 liter returnable glass presentation for the *Coca-Cola* brand and the introduction of the *Fanta* brand in the same presentation. Non-flavored bottled water sales volume grew 13% for the year, driven by an increased marketing and execution focus on our proprietary still bottled water brand *Crystal*.

***Income from Operations***. Gross profit totaled Ps. 3,337 million in 2006, an increase of 6.8% as compared to 2005, in spite of higher costs per unit cases driven by the inclusion of beer costs and increases in sugar prices year over year, which were partially offset by the appreciation of the Brazilian real against the U.S. dollar, as applied to our raw material costs denominated in U.S. dollars. Our gross margin was 42.2% in 2006.

Operating income reached Ps. 1,138 million, an increase of 10.0% as compared to 2005, mainly driven by top line growth, resulting in an operating income margin of 14.4% in 2006. Operating expenses as a percentage of sales declined 360 basis points to 27.8%, mainly due to improved operating leverage from an increase in sales volume and the implementation of better commercial practices.

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

**Consolidated Results of Operations**

***Total Revenues.*** Consolidated total revenues grew 5.3% to Ps. 53,997 million in 2005, compared to Ps. 51,276 million in 2004. The majority of the growth came from Brazil and Colombia, accounting for 13% and 9% of the total incremental revenues, respectively.

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

Consolidated average price per unit case increased 0.8% from Ps. 28.37 in 2004 to Ps. 28.14 in 2005, driven by average price increases in all our territories, except Central America. Price increases implemented during the year, mainly in Venezuela, Colombia and Argentina, combined with a better packaging and product mix in Mexico and Brazil, resulted in higher average prices per unit case.

***Gross Profit***. Our gross profit increased 5.7% to Ps. 26,475 million in 2005, compared with the previous year. Brazil and Mexico accounted for almost 90% of this growth. Gross margin improved 20 basis points as a result of higher average prices per unit case in all of our territories, except Central America, and relatively stable average costs per unit case on a consolidated basis. Lower sweetener costs in Mexico and Colombia, combined with the appreciation of local currencies in the majority of our territories applied to our U.S. dollar-denominated costs, more than compensated for price increases in resin used to make plastic bottles.

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

***Operating Expenses***. Consolidated operating expenses as a percentage of total revenues declined to 31.9% in 2005 from 32.3% in 2004 due to higher fixed-cost absorption driven by incremental volumes and higher average price per unit case. During 2005, operating expenses in absolute terms increased 4.0% year over year mainly as a result of (1) the implementation of value-creation initiatives, including reconfiguring our distribution network to support new multi-segmentation strategies in major markets by socioeconomic levels and competitive intensity and the implementation of revenue management strategies, (2) salary increases ahead of inflation in some of the countries in which we operate, and (3) higher operating expenses due to increases in maintenance expenses and freight costs in some territories.

We incur various expenses related to the distribution of our products. We include these types of costs in the selling expenses line of our income statement. During 2005 and 2004, our distribution costs amounted to Ps. 7,433 million and Ps. 7,031 million, respectively. The exclusion of these charges from our cost of sales line may result in the amounts reported as gross profit not being comparable to other companies, which may include all expenses related to their distribution network in cost of sales when computing gross profit (or an equivalent measure).

***Income from Operations***. Our consolidated operating income increased 9.0% to Ps. 9,218 million in 2005, compared with 2004. Growth in Mexico, Brazil and Colombia more than compensated for an operating income decline in Venezuela. Our overall operating margin improved 60 basis points to 17.1% during 2005.

***Integral Result of Financing .***In 2005 we reported a loss in integral result of financing of Ps. 1,281 million, an increase of 50.5% compared to 2004. Lower gains in our monetary position, as a result of the combined effect of a decline in our monetary liabilities and a lower Mexican inflation rate as applied to these monetary liabilities, more than offset a decline in interest expense and a foreign exchange gain derived from the appreciation of the Mexican peso against the U.S. dollar, as applied to our U.S. dollar-denominated debt.

***Other Expenses***. Other expenses decreased to Ps. 336 million in 2005 from Ps. 432 million in 2004. Other expenses were higher in 2004 due to a change in the tax deduction criteria on coolers in Mexico in 2004 that required us to make a one-time payment.

***Income Taxes and Employee Profit Sharing***. Income taxes and employee profit sharing increased to Ps. 2,741 million in 2005 from Ps. 1,201 million in 2004. Our consolidated effective income tax and employee profit sharing rate increased from 16.9% in 2004, to 36.1% in 2005, mainly due to a one-time benefit in the amount of Ps. 1,449 million, derived from a gain from a tax lawsuit in 2004 in connection with a deduction of losses arising from a sale of shares during 2002.

***Net Income***. Our consolidated majority net income was Ps. 4,759 million during 2005, a decrease of 20.0% compared to 2004, principally due to above mentioned non-recurring events. Earnings per share were Ps. 2.58 (US$ 0.24 per ADS) computed on the basis of 1,846.5 million shares outstanding (each ADS represents 10 Series L Shares). Excluding these non-recurring effects, majority net income would have increased 5.8% in 2005.

**Consolidated Results Of Operations By Geographic Segment**

**Mexico**

***Total Revenues.*** Total revenues in Mexico were Ps. 29,662 million in 2005, compared to Ps. 28,595 million in 2004, an increase of 3.7% mainly driven by 3.5% total sales volume growth. Average price per unit case remained relatively stable at Ps. 28.90 in 2005, compared to Ps. 28.89 for 2004. Carbonated soft drinks average price per unit case was Ps. 33.40 during 2005, remaining almost flat as compared to 2004.

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

***Income from Operations.*** Gross profit totaled Ps. 15,732 million, representing a gross margin of 53.0% in 2005, an increase of 30 basis points as compared to 2004. Lower sweetener costs, derived from lower sugar prices and the usage of high fructose corn syrup, combined with the appreciation of the Mexican peso against the U.S. dollar applied to our U.S. dollar-denominated costs, more than offset higher resin prices during the year, resulting in a slight improvement in average cost per unit case.

Our operating income in 2005 reached Ps. 6,368 million, resulting in a 21.4% operating margin compared to a 21.1% in 2004, as a result of higher fixed-cost absorption driven by higher revenues.

**Central America**

***Total Revenues***. Total revenues in Central America were Ps. 3,636 million in 2005, a decline of 2.7% as compared to 2004, driven by lower average price per unit case, which accounted for 70% of the revenue decline, and a decrease in sales volume comprised the balance. Average price per unit case decreased 2.5% to Ps. 32.81, mainly as a result of a more competitive environment in the majority of the region, driven by the entrance of low-price producers of carbonated soft drinks.

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

***Income from Operations***. Gross profit totaled Ps. 1,743 million in 2005, a reduction of 3.2% as compared to 2004, mainly driven by lower revenues. Higher resin prices and sweetener costs combined with a packaging mix shift towards non-returnable presentations more than offset savings from cost cutting initiatives throughout the region, resulting in a margin decline of 20 basis points to 47.9% in 2005.

Operating income reached Ps. 497 million in 2005, resulting in an operating income margin of 13.7%, an improvement of 180 basis points as compared to 2004, driven by savings achieved through better distribution practices and from our shared services program implemented throughout the region in 2004.

**Colombia**

***Total Revenues***. Total revenues in Colombia reached Ps. 5,084 million in 2005, an increase of 9.4% as compared to 2004. Over 80% of revenue growth was driven by incremental volume, and higher average price per unit case represented the balance. Average price per unit case reached Ps. 28.28 for 2005, compared to Ps. 27.81 in 2004, recording an increase of 1.7% as a consequence of price increases implemented during the year, and the appreciation of the Colombian peso against the U.S. dollar in 2005, as applied to our net revenues in Mexican pesos under Mexican Financial Reporting Standards.

Total sales volume was 179.7 million unit cases in 2005, an increase of 7.5% as compared to 2004, mainly driven by 33% volu