

COCA COLA FEMSA SAB DE CV  
Form 20-F  
April 26, 2012

As filed with the Securities and Exchange Commission on April 25, 2012.

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

**FORM 20-F**

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

**For the fiscal year ended December 31, 2011  
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 Fe  
01210 México, D.F., México**  
(Address of principal executive offices)

**José Castro**

**Guillermo González Camarena No. 600  
Centro de Ciudad Santa Fe  
01210 México, D.F., México**

**(52-55) 5081-5120/5121**

**krelations@kof.com.mx**

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

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
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, 2011 was:**

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

583,545,678 Series D shares, without par value  
334,406,004 Series L shares, without par value

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

Large Accelerated filer  Accelerated filer  Non-accelerated filer

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

U.S. GAAP  IFRS  Other

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

Item 17  Item 18

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

Yes  No

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## INTRODUCTION

### References

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

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

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

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

### Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 13.95 to US\$ 1.00, the exchange rate for Mexican pesos on December 30, 2011, the last day in 2011 for which information is available, according to the U.S. Federal Reserve Board. On April 20, 2012, this exchange rate was Ps. 13.12 to US\$ 1.00. See “**Item 3. Key Information—Exchange Rate Information**” for information regarding exchange rates since January 1, 2007.

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

### Sources

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

### Forward-Looking Information

This annual report contains words such as “believe,” “expect,” “anticipate” and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including, but not limited to, effects on our company from changes in our relationship with The Coca-Cola Company, movements in the prices of raw materials, competition, significant developments in economic or political conditions in Latin America or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these

statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

## **Business Divisions**

During 2011, we restructured our internal operations in order to have the necessary flexibility to manage our business going forward, extend our track record of growth and better reflect the geographic characteristics of our business. Previously, we managed our business under three divisions—Mexico, Latincentro, and Mercosur. As a result of these changes, we organized our operations into the following two reportable segments: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama) and (ii) South America division (comprising the following countries: Brazil, Argentina, Colombia and Venezuela). However, because Venezuela operates in an economy with exchange control and hyper-inflation, Bulletin B-5 “Information by Segments”, does not allow its aggregation into the South America segment for purposes of our consolidated financial statements. See “**Item 4. Information on the Company—The Company—Business Strategy.**”

### **Item 1. Not Applicable**

### **Item 2. Not Applicable**

### **Item 3. Key Information**

## **SELECTED CONSOLIDATED FINANCIAL DATA**

This annual report includes (under Item 18) our audited consolidated balance sheets as of December 31, 2011 and 2010 and the related consolidated statements of income and changes in shareholders’ equity and cash flows for the years ended December 31, 2011, 2010, and 2009. Our consolidated financial statements for those years were prepared in accordance with Mexican Financial Reporting Standards, which we sometimes refer to as Mexican FRS. Mexican FRS differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Notes 26 and 27 to our consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, together with reconciliation to U.S. GAAP of net income and shareholders’ equity.

Beginning in 2012, Mexican issuers with securities registered in the National Securities Registry (*Registro Nacional de Valores*) of the *Comisión Nacional Bancaria y de Valores* (Mexican National Banking and Securities Commission, or the CNBV) are required to prepare financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, which we refer to as IFRS. Accordingly, as of January 1, 2012, we are preparing our financial information in accordance with IFRS on a comparable basis. See Note 28 to our audited consolidated financial statements.

Through December 31, 2007, Mexican FRS required us to recognize effects of inflation in our financial statements and re-express financial statements from prior periods in constant pesos as of the end of the most recent period presented. For periods beginning in 2008, we adopted *Norma de Información Financiera* (NIF) B-10 “Effects of Inflation” under Mexican Financial Reporting Standards. Under this rule, the previous inflation accounting rules requiring us to re-express prior years to reflect the impact of current period inflation no longer apply, unless the economic environment in which we operate qualifies as inflationary pursuant to Mexican Financial Reporting Standards. An economic environment is inflationary if the cumulative inflation equals or exceeds an aggregate of 26% over the preceding three consecutive years. As a result, we ceased to recognize the effects of inflation on our financial information for our subsidiaries in Mexico, Guatemala, Panama, Colombia and Brazil. For the rest of our subsidiaries in Argentina, Venezuela, Costa Rica and Nicaragua, we continue, as of December 31, 2011, applying inflationary accounting in accordance with Mexican Financial Reporting Standards.



Pursuant to Mexican FRS, the information presented in this annual report presents financial information for 2011, 2010, and 2009 in nominal terms that has been presented in Mexican pesos, taking into account local inflation of each inflationary economic environment and converting from local currency to Mexican pesos using the official exchange rate at the end of the period published by the local central bank of each country categorized as an inflationary economic environment. For each non-inflationary economic environment, local currency is converted to Mexican pesos using the year-end exchange rate for assets and liabilities, the historical exchange rate for shareholders' equity and the average exchange rate for the income statement. Our financial information for 2007 is expressed in constant pesos as of December 31, 2007.

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

- In inflationary economic environments, the figures are restated for inflation based on the local consumer price index.
- In inflationary economic environments, gains and losses in purchasing power from holding monetary liabilities or assets are recognized in the “Comprehensive financing result” line in the income statement.
- Financial statements for 2011, 2010, and 2009 are stated in nominal Mexican pesos.
- Beginning in 2008, as a result of discontinuing inflationary accounting for subsidiaries that operate in non-inflationary economic environments, the financial statements are no longer considered to be presented in a reporting currency that comprehensively includes the effects of price level changes; therefore, the inflationary effects of inflationary economic environments arising in 2011, 2010, 2009 and 2008 result in a difference to be reconciled for U.S. GAAP purposes. See Notes 26 and 27 to our consolidated financial statements.

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

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

**Year Ended December 31,**  
**2011<sup>(1)</sup>      2011      2010      2009<sup>(2)</sup>      2008<sup>(3)</sup>      2007**  
**(2011, 2010, 2009 and 2008 in millions of Mexican pesos or millions of U.S. dollars;**  
**2007 in millions of constant Mexican pesos as of December 31, 2007, except share and**  
**per share data)**

**Income Statement Data:**

**Mexican FRS**

Total revenues	US\$	8,940	Ps.	124,715	Ps.	103,456	Ps.	102,767	Ps.	82,976	Ps.	69,251
Cost of goods sold		4,838		67,488		55,534		54,952		43,895		35,876
Gross profit		4,102		57,227		47,922		47,815		39,081		33,375
Operating expenses		2,657		37,075		30,843		31,980		25,386		21,889
Income from operations		1,445		20,152		17,079		15,835		13,695		11,486
Comprehensive financing result		76		1,058		1,228		1,373		3,552		345
Other expenses, net		167		2,326		1,292		1,449		1,831		702
Income taxes		401		5,599		4,260		4,043		2,486		3,336
Consolidated net income		801		11,169		10,299		8,970		5,826		7,103

Controlling interest net income	761	10,615	9,800	8,523	5,598	6,908
Non-controlling interest net income	40	554	499	447	228	195
Net controlling income per share <sup>(4)</sup>	0.41	5.69	5.31	4.62	3.03	3.74

**U.S. GAAP**

Total revenues	US\$ 8,909	Ps. 124,288	Ps. 103,122	Ps. 100,393	Ps. 81,099	Ps. 69,131
Cost of goods sold	4,891	68,240	55,944	54,335	43,490	36,118
Gross profit	4,018	56,048	47,178	46,058	37,609	33,013
Operating expenses	2,729	38,068	31,770	31,843	25,567	22,279
Income from operations	1,289	17,980	15,408	14,215	12,042	10,734
Comprehensive financing result	82	1,149	1,260	1,752	3,917	278
Other expenses, net	34	480	163	226	440	241
Income taxes	389	5,422	4,097	3,525	1,987	3,272
Consolidated net income <sup>(5)</sup>	790	11,015	10,105	8,853	5,802	6,953
Controlling interest net income	751	10,467	9,608	8,407	5,571	6,765
Non-controlling interest net income	39	548	497	446	231	188
Net controlling income per share <sup>(4)</sup>	0.40	5.61	5.20	4.55	3.02	3.66

**Balance Sheet Data:****Mexican FRS**

Cash, cash equivalents and marketable securities	US\$	907 Ps.	12,661 Ps.	12,534 Ps.	9,954 Ps.	6,583 Ps.	7,780
Other current assets		1,392	19,413	13,902	13,685	11,409	9,681
Property, plant and equipment, net		2,975	41,502	31,874	31,007	28,157	23,662
Intangible assets, net		5,066	70,675	51,213	50,898	47,453	42,458
Other assets, net		527	7,357	4,538	5,117	4,356	3,597
Total assets		10,867	151,608	114,061	110,661	97,958	87,178
Short-term bank loans and notes payable		397	5,540	1,840	5,427	6,119	4,814
Other current liabilities		1,401	19,537	15,806	18,021	15,214	11,496
Long-term bank loans and notes payable.		1,221	17,034	15,511	10,498	12,455	14,102
Other long-term liabilities		624	8,717	7,023	8,243	6,554	5,985
Total liabilities		3,643	50,828	40,180	42,189	40,342	36,397
Shareholders' equity		7,224	100,780	73,881	68,472	57,616	50,781
Capital stock		228	3,178	3,116	3,116	3,116	3,116
Non-controlling interest in consolidated subsidiaries		221	3,089	2,602	2,296	1,703	1,641
Controlling interest		7,003	97,691	71,279	66,176	55,913	49,140

**U.S. GAAP**

Cash, cash equivalents and marketable securities	US\$	873 Ps.	12,173 Ps.	12,140 Ps.	9,740 Ps.	6,192 Ps.	7,542
Other current assets		1,486	20,738	15,081	14,936	12,493	10,523
Property, plant and equipment, net		2,971	41,442	32,032	29,600	27,967	22,996
Intangible assets, net		5,003	69,795	50,697	49,336	46,580	42,458
Other assets, net		518	7,232	5,063	4,817	4,741	5,063
Total assets		10,851	151,380	115,013	108,429	97,973	88,582
Short-term bank loans and notes payable		397	5,540	1,840	5,427	6,119	4,814
Other current liabilities		1,401	19,540	15,816	18,033	15,226	11,430
Long-term bank loans and notes payable		1,221	17,034	15,511	10,497	12,455	14,102
Other long-term liabilities		679	9,472	8,378	8,435	7,705	7,111
Total liabilities		3,698	51,586	41,545	42,392	41,505	37,457
Equity		7,153	99,794	73,468	66,037	56,468	51,125
Non-controlling interest in consolidated subsidiaries		224	3,124	2,633	2,333	1,707	1,653
Controlling interest		6,929	96,670	70,835	63,704	54,761	49,472
Capital stock		228	3,178	3,116	3,116	3,116	3,116

**Other Data:****Mexican FRS**

Depreciation <sup>(5)</sup>	US\$	298 Ps.	4,163 Ps.	3,333 Ps.	3,472 Ps.	3,022 Ps.	2,586
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Capital expenditures <sup>(6)</sup>		561	7,826	7,478	6,282	4,802	3,682
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**U.S. GAAP**

Depreciation <sup>(5)</sup>	US\$	300 Ps.	4,192 Ps.	3,381 Ps.	3,696 Ps.	3,151 Ps.	2,717
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- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.95 to US\$ 1.00 solely for the convenience of the reader.  
Includes results from the operations of Grupo Tampico from October 2011 and from Grupo CIMSA from December 2011. **See “Item 4—Information on the Company—The Company—Corporate History.”**
- (2) Includes results from the operations of Brisa from June 2009. **See “Item 4—Information on the Company—The Company—Corporate History.”**
- (3) Includes results from the operations of REMIL from June 2008. **See “Item 4—Information on the Company—The Company—Corporate History.”**
- (4) Computed on the basis of 1,865.3 million for 2011 and 1,846.5 million for previous years million shares outstanding.
- (5) Includes depreciation of coolers reclassified to property, plant and equipment during 2009.
- (6) Expressed in nominal 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.

<b>Fiscal Year with Respect to which Dividend was Declared</b>	<b>Date Dividend Paid</b>	<b>Mexican Pesos per Share (Nominal)</b>	<b>U.S. Dollars per Share<sup>(1)</sup></b>
2007	May 6, 2008	0.512	0.049
2008	April 13, 2009	0.727	0.054
2009	April 26, 2010	1.410	0.116
2010	April 27, 2011	2.360	0.204
2011	May 30, 2012 <sup>(2)</sup>	2.770	Ⓒ

- (1) Expressed in U.S. dollars using the exchange rate applicable when the dividend was paid.
- (2) Estimated payment date since dividends for 2011 have not been paid at the time of this annual report.
- (3) Since dividends for 2011 have not been paid at the time of this annual report, the U.S. dollar per share amount has not been determined.

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

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

**EXCHANGE RATE INFORMATION**

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

<b>Period</b>	<b>Exchange Rate</b>			<b>End of Period</b>
	<b>High</b>	<b>Low</b>	<b>Average<sup>(1)</sup></b>	
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.21	13.83
2009	15.41	12.63	13.58	13.06
2010	13.19	12.16	12.64	12.38
2011	14.25	11.51	12.43	13.95

Source: U.S. Federal Reserve Board.

(1) Average month-end rates.

	<b>Exchange Rate</b>		<b>End of Period</b>
	<b>High</b>	<b>Low</b>	
2010:			
First Quarter	Ps. 13.19	Ps. 12.30	Ps. 12.30
Second Quarter	13.14	12.16	12.83
Third Quarter	13.17	12.49	12.63
Fourth Quarter	12.61	12.21	12.38
2011:			
First Quarter	Ps. 12.25	Ps. 11.92	Ps. 11.92
Second Quarter	11.97	11.51	11.72
Third Quarter	13.87	11.57	13.77
Fourth Quarter	14.25	13.10	13.95
December	13.99	13.49	13.95
2012:			
First Quarter	Ps. 13.75	Ps. 12.63	Ps. 12.81
January	13.75	12.93	13.04
February	12.95	12.63	12.79
March	12.99	12.63	12.81

Source: U.S. Federal Reserve Board.

On April 20, 2012, the exchange rate was Ps. 13.12 to US\$ 1.00, according to the U.S. Federal Reserve Board.



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

## RISK FACTORS

### Risks Related to Our Company

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

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

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

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

We depend on The Coca-Cola Company to renew our bottler agreements. As of December 31, 2011, we had seven bottler agreements in Mexico, with each one corresponding to a different territory: (i) the agreements for Mexico’s Valley territory expires in June 2013 and April 2016, (ii) the agreements for the Central territory expires in May 2015 and July 2016. (iii) the agreement for the Northeast territory expires in September 2014, (iv) the agreement for the Bajío territory expires in May 2015, and (v) the agreement for the Southeast territory expires in June 2013. Our bottler agreements with The Coca-Cola Company will expire for our territories in other countries as follows: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014. All of our bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, these agreements generally may be terminated in the case of material breach. See “**Item 4. Information on the Company—Bottler Agreements.**” Termination would prevent us from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on our business, financial conditions, results from operations and prospects.

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

The Coca-Cola Company and Fomento Económico Mexicano, S.A.B. de C.V., which we refer to as FEMSA, have substantial influence on the conduct of our business. As of April 20, 2012, The Coca-Cola Company indirectly owns 29.4% of our outstanding capital stock, representing 37.0% of our capital stock with full voting rights. The Coca-Cola Company is entitled to appoint five of our maximum of 21 directors and the vote of at least two of them is required to approve certain actions by our board of directors. As of April 20, 2012, FEMSA indirectly owns 50.0% of our outstanding capital stock, representing 63.0% of our capital stock with full voting rights. FEMSA is entitled to appoint 13 of our maximum of 21 directors and all of our executive officers. The Coca-Cola Company and FEMSA together, or only FEMSA in certain circumstances, have the power to determine the outcome of all actions requiring approval by our board of directors, and FEMSA and The Coca-Cola Company together, or only FEMSA in certain

circumstances, have the power to determine the outcome of all actions requiring approval of our shareholders. **See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—The Shareholders Agreement.”** The interests of The Coca-Cola Company and FEMSA may be different from the interests of our remaining shareholders, which may result in us taking actions contrary to the interests of our remaining shareholders.

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

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

Our transactions with related parties may create the potential for conflicts of interest, which could result in terms less favorable to us than could be obtained from an unaffiliated third party.

*Competition could adversely affect our financial performance.*

The beverage industry in the territories in which we operate is highly competitive. We face competition from other bottlers of sparkling beverages such as *Pepsi* products, and from producers of low cost beverages or “B brands.” We also compete in different beverage categories, other than sparkling beverages, such as water, juice-based beverages, teas, sport drinks and value-added dairy products. Although competitive conditions are different in each of our territories, we compete principally in terms of price, packaging, consumer sales promotions, customer service and product innovation. **See “Item 4. Information on the Company—The Company—Competition.”** There can be no assurances that we will be able to avoid lower pricing as a result of competitive pressure. Lower pricing, changes made in response to competition and changes in consumer preferences may have an adverse effect on our financial performance.

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

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

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

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

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

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

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

In addition to water, our most significant raw materials are (1) concentrate, which we acquire from affiliates of The Coca-Cola Company, (2) packaging materials and (3) sweeteners. Prices for sparkling beverages concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages in Brazil and Mexico. These increases were fully implemented in Brazil in 2008 and in Mexico in 2009. However, we may experience further increases in our territories in the future. The prices for our remaining raw materials are driven by market prices and local availability as well as the imposition of import duties and import restrictions and fluctuations in exchange rates. We are also required to meet all of our supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to us. Our sales prices are denominated in the local currency in each country in which we operate, while the prices of certain materials, including those used in the bottling of our products, mainly resin, ingots to make plastic bottles, finished plastic bottles, aluminum cans and HFCS, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currency of the countries in which we operate, as was the case in 2008 and 2009. While the U.S. dollar did not appreciate against the currency of the countries in which we operate in 2010 and most of 2011, we cannot assure you that an appreciation of the U.S. dollar with respect to such currencies will not occur in the future. **See “Item 4. Information on the Company—The Company—Raw Materials.”**

Our most significant packaging raw material costs arise from the purchase of resin and plastic ingots to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are tied to crude oil prices and global resin supply. The average prices that we paid for resin and plastic ingots in U.S. dollars increased significantly in 2011, as compared to 2010. We cannot provide any assurance that prices will not increase further in future periods. Average sweetener prices, including sugar and HFCS, paid during 2011 were higher as compared to 2010 in all of the countries in which we operate. During 2009 to 2011 international sugar prices were volatile due to various factors, including shifting demands, availability and climate issues affecting production and distribution. Sugar prices in all of the countries in which we operate other than Brazil are subject to local regulations and other barriers to market entry that cause us to pay in excess of international market prices for sugar. **See “Item 4. Information on the Company—The Company—Raw Materials.”** We cannot assure you that our raw material prices will not further increase in the future. Increases in the prices of raw materials would increase our cost of goods sold and adversely affect our financial performance.

***Taxes could adversely affect our business.***

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

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

Our products are also subject to certain taxes in many of the countries in which we operate. Certain countries in Central America, Brazil and Argentina also impose taxes on sparkling beverages. **See “Item 4. Information on the Company—Regulation—Taxation of Sparkling Beverages.”** We cannot assure you that any governmental authority in any country where we operate will not impose new taxes or increase taxes on our products in the future. The imposition of new taxes or increases in taxes on our products may have a material adverse effect on our business, financial condition, prospects and results from operations.

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

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

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

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

In July 2011 the Venezuelan government passed the *Ley de Costos y Precios Justos* (Fair Costs and Prices Law). The purpose of this law is to establish the regulations and administrative processes necessary to maintain the price stability of, and equal access to, goods and services. The law also creates the National Ministry of Costs and Prices, whose main role is to oversee price controls and set maximum retail prices on certain consumer goods and services. Of our products, only certain of our still water beverages were affected by these regulations, which mandated to lower our sale prices as of April 2012. Any failure to comply with this law would result in fines, temporary suspension or the closure of operations. While we are currently in compliance with this law, we cannot assure you that the Venezuelan government’s future regulation of goods and services will not result in a forced reduction of prices in other of our products, which could have a negative effect on our results of operations.

In January 2012, the Costa Rican government approved a decree which regulates the sale of food and beverages in schools. The decree came into effect in 2012. Enforcement of this law will be gradual, from 2012 to 2014, depending on the specific characteristics of the food and beverage in question. According to the decree, the sale of specific sparkling beverages and still beverages that contain sugar, syrup or HFCS in any type of presentation in schools is prohibited. We will still be allowed to sell water and certain still beverages in schools. We cannot assure you that the Costa Rican government will not further restrict sales of other of our products in schools in the future; any such



further restrictions could lead to an adverse impact on our results of operations.

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

*Weather conditions may adversely affect our results from operations.*

Lower temperatures and higher rainfall may negatively impact consumer patterns, which may result in lower per capita consumption of our beverage offerings. Additionally, adverse weather conditions may affect road infrastructure in the territories in which we operate and limit our ability to sell and distribute our products, thus affecting our results from operations. As was the case in most of our territories in 2011, adverse weather conditions affected our sales in certain regions of these territories.

**Risks Related to the Series L shares and the ADSs**

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

Holders of our Series L shares are entitled to vote only in certain circumstances. In general terms they may elect up to three of our maximum of 21 directors and are only entitled to vote on specific matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of our shares on the Mexican Stock Exchange or any other foreign stock exchange, and those matters for which the *Ley de Mercado de Valores* (Mexican Securities Market Law) expressly allows them to vote. As a result, Series L shareholders will not be able to influence our business or operations. See “**Item 7. Major Shareholders and Related Party Transactions—Major Shareholders**” and “**Item 10. Additional Information—Bylaws—Voting Rights, Transfer Restrictions and Certain Minority Rights.**”

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

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

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

Under the Mexican Securities Market Law, the protections afforded to non-controlling interest shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Therefore, it may be more difficult for non-controlling interest shareholders to enforce their rights against us, our directors or our controlling interest shareholders than it would be for minority shareholders of a United States company.

In addition, we are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States, and all or a substantial portion of our assets and the assets of our directors, officers and controlling persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws.

The enforceability against our directors, officers and controlling persons in Mexico in actions for enforcement of judgments of U.S. courts, and liabilities predicated solely upon the U.S. federal securities laws will be subject to certain requirements provided for in the Mexican Federal Civil Procedure Code and any applicable treaties. Some of the requirements may include personal service of process and that the judgments of U.S. courts are not against Mexican public policy. The Mexican Securities Market Law, which is considered Mexican public policy, provides

that in the event of actions derived from any breach of the duty of care and the duty of loyalty against our directors and officers, any remedy would be exclusively for the benefit of the company. Therefore, investors would not be directly entitled to any remedies under such actions.

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

The market value of securities of Mexican companies is, to varying degrees, influenced by economic and securities market conditions in other 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, will not adversely affect the market value of our securities.

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

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

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

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic territory. For the year ended December 31, 2011, 35.7% of our total revenues were attributable to Mexico. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, deterioration in economic conditions in the U.S. economy may affect the Mexican economy. Prolonged periods of weak economic conditions in Mexico may have, and in the past have had, a negative effect on our company and a material adverse effect on our results from operations and financial condition.

Our business may be significantly affected by the general condition of the Mexican economy, or by the rate of inflation and interest rates in Mexico and exchange rates for the Mexican peso. Decreases in the growth rate of the Mexican economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk.” In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate, Mexican peso-denominated funding, which constituted approximately 24.5% of our total debt as of December 31, 2011, and have an adverse effect on our financial position. See **“Item 5. Operating and Financial Review and Prospects—Liquidity and Capital Resources.”**



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

Depreciation of the Mexican peso relative to the U.S. dollar increases the cost to us of some of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and thereby may negatively affect our results from operations, financial position and shareholders' equity. Significant fluctuation of the Mexican peso relative to the U.S. dollar occurred in the past, for example, at the end of 2008 and into 2009; and occurred again at the end of 2011, negatively affecting our results. According to the U.S. Federal Reserve Board, the exchange rate registered a low of Ps. 9.92 to US\$ 1.00 at August 5, 2008, and a high of Ps. 15.41 to US\$ 1.00 at March 2, 2009 in that period. At December 31, 2011, the exchange rate was Ps. 13.95 to U.S.\$ 1.00. At April 20, 2012, the exchange rate was Ps. 13.12 to US\$ 1.00. **See “Item 3. Key Information—Exchange Rate Information” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Exchange Rate Risk.”**

We selectively hedge our exposure to the U.S. dollar with respect to the Mexican peso and other currencies, our U.S. dollar-denominated debt obligations, and recently, the purchase of certain U.S. dollar-denominated raw materials. A severe depreciation of the Mexican peso or any currency of the countries in which we operate, may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated indebtedness or obligations in other currencies. While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future. Currency fluctuations may have an adverse effect on our results from operations, financial condition and cash flows in future periods.

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

Mexican political events may significantly affect our operations. Mexico's next president to be elected in July 2012 may implement significant changes in laws, public policy and/or regulations that could affect Mexico's political and economic situation, which could adversely affect our business. We cannot assure you that we will continue to operate under the same policies applicable to us after the Mexican federal elections in 2012.

Political events in Mexico, including events related to Mexico's 2012 federal elections for a new President and Congress, may significantly affect Mexican economic policy and, consequently, our operations. Political disagreements between the executive and the legislative branches could result in deadlock and prevent the timely implementation of political and economic reforms, which in turn could have a material adverse effect on Mexican economic policy. The political environment involving Mexico's 2012 federal elections or otherwise, could have a negative effect on the Mexican economy, which in turn could result in an adverse effect on our business. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results from operations.

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

In addition to Mexico, we conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. Total revenues and income from our combined non-Mexican operations increased as a percentage of our consolidated total revenues and income from operations from 47.4% and 32.4%, respectively, in 2006, to 64.3% and 62.0%, respectively, in 2011. As a consequence, our results have been increasingly affected by

the economic and political conditions in the countries, other than Mexico, where we conduct operations.

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

Venezuelan political events may affect our operations. The political uncertainty involving Venezuela's October 2012 elections or otherwise could have a negative effect on the Venezuelan economy, which in turn could result in an adverse effect on our business. We cannot provide any assurances that political developments in Venezuela, over which we have no control, will not have an adverse effect on our business, financial condition or results from operations.

Depreciation of the local currencies of the countries in which we operate against the U.S. dollar may increase our operating costs. We have also operated under exchange controls in Venezuela since 2003 that limit our ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price paid for raw materials and services purchased in local currency. In January 2010, the Venezuelan government announced a devaluation of its official exchange rate and the establishment of a multiple exchange rate system which was set at 2.60 bolivars to US\$ 1.00 for high priority categories and 4.30 bolivars to US\$ 1.00 for non-priority categories, and which recognized the existence of other exchange rates in which the government will intervene. In December 2010, the Venezuelan government announced its decision to implement a new singular fixed exchange rate of 4.30 bolivars to US\$ 1.00, which resulted in a devaluation of the bolivar against the U.S. dollar. For further information, please see Note 3 to our consolidated financial statements. Future changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries in which we have operations could have an adverse effect on our financial position and results from operations.

In addition, presidential elections were held in November 2011 in each of Guatemala and Nicaragua. The elections in Guatemala led to the election of a new President and political party (the Patriotic Party (*Partido Patriota*)). The elections in Nicaragua led to the reelection of José Daniel Ortega Saavedra, a member of the Sandinista National Liberation Front (*Partido Frente Sandinista de Liberación Nacional*). We cannot assure you that the elected presidents will continue to apply the same policies that have been applied to us in the past.

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



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

We are the largest franchise bottler of *Coca-Cola* trademark beverages in the world. We operate in territories in the following countries:

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

Our company was organized on October 30, 1991 as a *sociedad anónima de capital variable* (a variable capital stock corporation) under the laws of Mexico with duration of 99 years. On December 5, 2006, as required by amendments to the Mexican Securities Market Law, we became a *sociedad anónima bursátil de capital variable* (a listed variable capital stock corporation). Our legal name is Coca-Cola FEMSA, S.A.B. de C.V. Our principal executive offices are located at Guillermo González Camarena No. 600, Col. Centro de Ciudad Santa Fe, 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](http://www.coca-colafemsa.com).

The following is an overview of our operations by reporting segment in 2011.

**Operations by Reporting Segment—Overview**  
**Year Ended December 31, 2011<sup>(1)</sup>**

	Total Revenues	Percentage of Total Revenues	Income from Operations	Percentage of Income from Operations
Mexico and Central America <sup>(2)</sup>	52,196	41.9%	8,906	44.2%
South America (excluding Venezuela) <sup>(3)</sup>	52,408	42.0%	7,943	39.4%
Venezuela	20,111	16.1%	3,303	16.4%
Consolidated	124,715	100.0%	20,152	100.0%

- (1) Expressed in millions of Mexican pesos, except for percentages.
- (2) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes results of Grupo Tampico from October 2011 and Grupo CIMSA from December 2011.
- (3) Includes Colombia, Brazil and Argentina.

## Corporate History

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

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

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

In May 2003, we acquired Panamerican Beverages, or Panamco, and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and the gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. As a result of the acquisition, the interest of The Coca-Cola Company in the capital stock of our company increased from 30.0% to 39.6%.

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

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

In November 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican company owned directly or indirectly by us and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. Subsequently, we and The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle, through transactions completed during 2008. Taking into account the participations held by Grupo Tampico and Grupo CIMSA, we currently hold an interest of 24.0% in the Mexican joint business and approximately 19.7% in the Brazilian joint businesses. Jugos del Valle sells fruit juice-based beverages and fruit derivatives.

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

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

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

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

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

In August 2010, we acquired from The Coca-Cola Company along with other Brazilian *Coca-Cola* bottlers the business operations of the *Matte Leao* tea brand. As of April 20, 2012, we have a 19.4% indirect interest in the *Matte Leao* business in Brazil.

In March 2011, we acquired with The Coca-Cola Company, through Compañía Panameña de Bebidas S.A.P.I. de C.V., Grupo Industrias Lacteas (also known as Estrella Azul), a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. We will continue to develop this business with The Coca-Cola Company.

In October 2011, we closed our merger with Administradora Acciones del Noreste S.A.P.I. de C.V. (“Grupo Tampico”), one of the largest family-owned *Coca-Cola* bottlers calculated by sales volume in Mexico. This franchise territory operates in the states of Tamaulipas, San Luis Potosí, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro and sold 155.7 million unit cases of beverages in 2011. The aggregate enterprise value of this transaction was Ps. 9,300 million and a total of 63.5 million new KOF Series L shares were issued in connection with this transaction. We began to consolidate Grupo Tampico in our financial statements as of October 2011.

In December 2011, we closed our merger with Corporación de los Angeles, S.A. de C.V. and its shareholders (“Grupo CIMSA”), a Mexican family-owned *Coca-Cola* bottler with operations mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacán. This franchise territory sold 154.8 million unit cases of beverages in 2011. The aggregate enterprise value of this transaction was Ps. 11,000 million and a total of 75.4 million new KOF Series L shares were issued in connection with this transaction. We began to consolidate Grupo CIMSA in our financial statements as of December 2011. As part of our merger with Grupo CIMSA we also acquired a 13.2% equity interest in Promotora Industria Azucarera S.A de C.V. (“Piasa”).

## Recent Mergers and Acquisitions

On December 15, 2011, the Company entered into an agreement to merge the beverage division of Grupo Fomento Queretano S.A.P.I. de C.V. (“Grupo Fomento Queretano”) into the Company. Grupo Fomento Queretano’s beverage division operates mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The merger agreement was approved by both Coca-Cola FEMSA’s and Grupo Fomento Queretano’s boards of directors and is subject to the approval of the Comisión Federal de Competencia (the Mexican Antitrust Commission or CFC), and the shareholder’s meetings of both companies. The transaction will involve the issuance of approximately 45.1 million of the company’s newly issued series L shares, and in addition the company will assume Ps. 1,221 million in net debt. This transaction is expected to be completed in second quarter of 2012.

In February 2012, we entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. We remain in the process of evaluating this potential acquisition.

## Capital Stock

As of April 20, 2012, FEMSA indirectly owned Series A Shares equal to 50.0% of our capital stock (63.0% of our capital stock with full voting rights). As of April 20, 2012, The Coca-Cola Company indirectly owned Series D shares equal to 29.4% 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 20.6% of our capital stock.<sup>1</sup>

## Business Strategy

In August 2011, we restructured our operations under only two new divisions: Mexico & Central America and South America, creating a more flexible structure to execute our strategies and extend our track record of growth. Previously, we managed our business under three divisions—Mexico, Latincentro, and Mercosur. With this new business structure, we aligned our business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models. See “Introduction—Business Divisions.”

We operate with a large geographic footprint in Latin America, in two divisions:

- Mexico and Central America (covering certain territories in Mexico, Guatemala, Nicaragua, Costa Rica and Panama); and
- South America (covering certain territories in Colombia, Brazil, Venezuela and Argentina).

One of our goals is to maximize growth and profitability to create value for our shareholders. Our efforts to achieve this goal are based on: (1) transforming our commercial models to focus on our customers’ value potential and using a value-based segmentation approach to capture the industry’s value potential, (2) implementing multi-segmentation strategies in our major markets to target distinct market clusters divided by consumption occasion, competitive intensity and socioeconomic levels; (3) implementing well-planned product, packaging and pricing strategies through

different distribution channels; (4) driving product innovation along our different product categories; (5) developing new businesses and distribution channels, and (6) achieving the full operating potential of our commercial models and processes to drive operational efficiencies throughout our company. To achieve these goals, we intend to continue to focus our efforts on, among other initiatives, the following:

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

We seek to increase per capita consumption of our products in the territories in which we operate. To that end, our marketing teams continuously develop sales strategies tailored to the different characteristics of our various territories and distribution channels. We continue to develop our product portfolio to better meet market demand and maintain our overall profitability. To stimulate and respond to consumer demand, we continue to introduce new categories, products and presentations. See “—Product and Packaging Mix.” In addition, because we view our relationship with The Coca-Cola Company as integral to our business, we use market information systems and strategies developed with The Coca-Cola Company to improve our business and marketing strategies. **See “Item 4. Information on the Company—The Company—Description of Property, Plant and Equipment.”**

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

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

Sustainable development is an integral part of our strategic framework for business growth. We base our efforts on five core areas which include: (i) Ethics and Corporate Values, which defines our commitment to acting, defining and organizing ourselves with our corporate values and culture; (ii) Quality of Life in the Company, which encourages the



integral development of our employees and their families; (iii) Health and Wellness, to promote an attitude of health, self-care, nutrition and physical activity, both within and outside the company; (iv) Community Engagement, to develop education and learning projects that improve the quality of life in the communities where we operate; and (v) Environmental Care, to establish guidelines that result in actions to minimize the impact that our operations might have on the environment and create a broader awareness of caring for our environment.

**Our Territories**

The following map shows our territories, giving estimates in each case of the population to which we offer products, the number of retailers of our beverages and the per capita consumption of our beverages as of December 31, 2011:

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

## Our Products

We produce, market and distribute *Coca-Cola* trademark beverages. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters, and still beverages (including juice drinks, coffee, teas and isotonic). The following table sets forth our main brands as of December 31, 2011:

<i>Colas:</i>	<u>Mexico and Central America</u> <sup>(1)</sup>	<u>South America</u> <sup>(2)</sup>	<u>Venezuela</u>
<i>Coca-Cola</i>	a	a	a
<i>Coca-Cola Light</i>	a	a	a
<i>Coca-Cola Zero</i>	a	a	

<i>Flavored sparkling beverages:</i>	<u>Mexico and Central America</u> <sup>(1)</sup>	<u>South America</u> <sup>(2)</sup>	<u>Venezuela</u>
<i>Chinotto</i>			a
<i>Crush</i>		a	
<i>Fanta</i>	a	a	
<i>Fresca</i>	a		
<i>Frescolita</i>	a		a
<i>Hit</i>			a
<i>Kist</i>	a		
<i>Kuat</i>		a	
<i>Lift</i>	a		
<i>Mundet</i>	a		
<i>Quatro</i>		a	
<i>Simba</i>		a	
<i>Sprite</i>	a	a	
<i>Schweppes</i>	a	a	a

<i>Water:</i>	<u>Mexico and Central America</u> <sup>(1)</sup>	<u>South America</u> <sup>(2)</sup>	<u>Venezuela</u>
<i>Alpina</i>	a		
<i>Aquarius</i> <sup>(3)</sup>		a	
<i>Brisa</i>		a	
<i>Ciel</i>	a		
<i>Crystal</i>		a	

*Manantial  
Nevada*

a

a

<i>Other Categories:</i>	<u>Mexico and Central America</u> <sup>(1)</sup>	<u>South America</u> <sup>(2)</sup>	<u>Venezuela</u>
<i>Cepita</i>		a	
<i>Hi-C</i> <sup>(4)</sup>	a	a	
<i>Jugos del Valle</i> <sup>(5)</sup>	a	a	a
<i>Nestea</i> <sup>(6)</sup>	a		a
<i>Powerade</i> <sup>(7)</sup>	a	a	a
<i>Matte Leao</i> <sup>(8)</sup>		a	
<i>Valle Frut</i> <sup>(9)</sup>	a	a	a
<i>Estrella Azul</i> <sup>(10)</sup>	a		
<i>Hugo</i> <sup>(11)</sup>		a	
<i>Del Prado</i> <sup>(12)</sup>	a		

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

(2) Includes Colombia, Brazil and Argentina

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

(4) Juice-based beverage. Includes Hi-C Orangeade in Argentina

(5) Juice based beverage

(6) Nestea will no longer be a product licensed by The Coca-Cola Company in our territories as of May 2012 and will be replaced with Fuze Tea.

(7) Isotonic

(8) Ready to drink tea

(9) Orangeade. Includes *Fresh* in Costa Rica, Nicaragua, Panama, Colombia and Venezuela

(10) Milk and value-added dairy and juices

(11) Milk and juice blend

(12) Juice-based beverages

## Sales Overview

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

	<b>Sales Volume</b>		
	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(millions of unit cases)</b>		
Mexico and Central America			
Mexico <sup>(1)</sup>	1,366.5	1,242.3	1,227.2
Central America <sup>(2)</sup>	144.3	137.0	135.8
South America (excluding Venezuela)			
Colombia <sup>(3)</sup>	252.1	244.3	232.2
Brazil <sup>(4)</sup>	485.3	475.6	424.1
Argentina	210.7	189.3	184.1
Venezuela	189.8	211.0	225.2
Combined Volume	2,648.7	2,499.5	2,428.6

(1) Includes results of Grupo Tampico from October 2011 and Grupo CIMSA from December 2011.

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

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

(4) Excludes beer sales volume. As of the first quarter of 2010, we began to distribute certain ready to drink products under the *Matte Leao* brand.

## Product and Packaging Mix

Out of the more than 120 brands and line extensions of beverages that we sell and distribute, our most important brand, *Coca-Cola*, together with its line extensions, *Coca-Cola Light* and *Coca-Cola Zero*, accounted for 61.6% of total sales volume in 2011. Our next largest brands, *Ciel* (a water brand from Mexico), *Fanta* (and its line extensions), *Sprite* (and its line extensions) and *ValleFrut* (and its line extensions), accounted for 10.4%, 5.1%, 2.7% and 2.2%, respectively, of total sales volume in 2011. 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 mainly made of polyethylene terephthalate, which we refer to as PET.

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

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

The following discussion analyzes our product and packaging mix by reporting segment. The volume data presented is for the years 2011, 2010, and 2009.

**Mexico and Central America.** Our product portfolio consists of *Coca-Cola* trademark beverages. In 2008, as part of our efforts to strengthen our multi-category beverage portfolio, we incorporated the *Jugos del Valle* line of juice based beverages in Mexico and subsequently in Central America. Per capita consumption of our beverage products in Mexico and Central America was 632 and 179 eight-ounce servings, respectively, in 2011.

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

	Year Ended December 31,		
	2011	2010	2009
<b>Total Sales Volume<sup>(1)</sup></b>	<b>(millions of unit cases)</b>		
Total	1,510.8	1,379.3	1,363.0
% Growth	9.5%	1.2%	6.3%
<b>Unit Case Volume Mix by Category</b>	<b>(in percentages)</b>		
Sparkling beverages	74.9%	75.2%	74.7%
Water <sup>(2)</sup>	19.7	19.4	20.2

Still beverages	5.4	5.4	5.1
Total	100.0%	100.0%	100.0%

(1) Includes results from the operations of Grupo Tampico from October 2011 and from Grupo CIMSA from December 2011.

(2) Includes bulk water volumes.



In 2011, multiple serving presentations represented 67.6% of total sparkling beverages sales volume in Mexico, remaining flat as compared to 2010 and 55.7% of total sparkling beverages sales volume in Central America, a 60 basis points decrease compared to 2010. Our strategy is to foster consumption in single serving presentations while maintaining multiple serving volumes. In 2011, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 31.7% in Mexico, a 130 basis points increase compared to 2010; and 31.7% in Central America, a 150 basis points decrease compared to 2010.

In 2011, our sparkling beverages decreased as a percentage of our total sales volume from 75.2% in 2010 to 74.9% in 2011, mainly due to the integration of Grupo Tampico and Grupo CIMSA in Mexico, which have a higher mix of water in their portfolios.

In 2011, our most popular sparkling beverage presentations in Mexico were the 2.5-liter returnable plastic bottle, the 3.0-liter non-returnable plastic bottle and the 0.6-liter non returnable plastic bottle (the 20-ounce bottle that is also popular in the United States), which together accounted for 56.8% of total sparkling beverage sales volume in Mexico.

Total sales volume reached 1,510.8 million unit cases in 2011, an increase of 9.5% compared to 1,379.3 million unit cases in 2010. The integration of Grupo Tampico and Grupo CIMSA in Mexico contributed 48.9 million unit cases in 2011 of which 63.0% were sparkling beverages, 5.2% bottled water, 27.4% bulk water and 4.4% still beverages. Excluding the integration of these territories, volume grew 6.0% to 1,461.8 million unit cases. Organically sparkling beverages sales volume increased 6.0% as compared to 2010, contributing more than 70% of incremental volumes. The bottled water category, including bulk water, grew 5.6%, accounting for more than 15% of incremental volumes. The still beverage category increased 7.5%, representing the remainder of incremental volumes.

**South America (Excluding Venezuela).** Our product portfolio in South America consists mainly of *Coca-Cola* trademark beverages and the *Kaiser* beer brands in Brazil, which we sell and distribute. In 2008, as part of our efforts to strengthen our multi-category beverage portfolio, we incorporated the *Jugos del Valle* line of juice-based beverages in Colombia. This line of beverages was relaunched in Brazil in 2009 as well. The acquisition of Brisa in 2009 helped us to become the leader, calculated by sales volume, in the water market in Colombia. In 2010, we incorporated ready to drink beverages under the *Matte Leao* brand in Brazil. During 2011, as part of our continuous effort to develop non-carbonated beverages, we launched *Cepita* in non-returnable PET bottles and *Hi-C*, an orangeade, both in Argentina. Since 2009, as part of our efforts to foster sparkling beverage per capita consumption in Brazil, we re-launched a 2.0-liter returnable plastic bottle for the *Coca-Cola* brand and introduced two single-serve 0.25-liter presentations. During 2011, these presentations contributed significantly to incremental volumes in Brazil. Per capita consumption of our beverages in Colombia, Brazil and Argentina was 129, 261 and 395 eight-ounce servings, respectively, in 2011. The following table highlights historical total sales volume and sales volume mix in South America (excluding Venezuela), not including beer:

	Year Ended December 31,		
	2011	2010	2009
<b>Total Sales Volume</b>	<b>(millions of unit cases)</b>		
Total	948.1	909.2	840.4
% Growth	4.3%	11.2%	8.4%
<b>Unit Case Volume Mix by Category</b>	<b>(in percentages)</b>		
Sparkling beverages	85.9%	85.5%	87.2%
Water <sup>(1)</sup>	9.2	10.1	8.8
Still beverages	4.9	4.4	4.0
Total	100.0%	100.0%	100.0%



- (1) Includes bulk water volume.

Total sales volume was 948.1 million unit cases in 2011, an increase of 4.3% compared to 909.2 million unit cases in 2010. Growth in sparkling beverages, mainly driven by sales of the *Coca-Cola* brand in both Argentina and Colombia, and the Fanta and Schweppes brands in Brazil, accounted for the majority of the growth during the year. Growth in still beverages, mainly driven by the *Jugos del Valle* line of products in Brazil and the *Cepita* juice brand and *Hi-C* orangeade in Argentina, represented the balance of incremental volumes. These increases compensated for a decrease in volume in our water portfolio, including bulk water, mainly driven by the reduction in volume of the *Brisa* brand in Colombia.

In 2011, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 39.6% in Colombia, a 240 basis points decrease compared to 2010; 27.8% in Argentina, a decrease of 70 basis points and 15.8% in Brazil, a 100 basis points increase compared to 2010. In 2011, multiple serving presentations represented 62.1%, 71.3% and 85.0% of total sparkling beverages sales volume in Colombia, Brazil and Argentina, respectively.

We continue to distribute and sell the *Kaiser* beer portfolio in our Brazilian territories through the 20-year term, consistent with the arrangements in place with Cervejarias Kaiser, a subsidiary of the Heineken Group, since 2006, prior to the acquisition of Cervejarias Kaiser by Cuauhtémoc Moctezuma Holding, S.A. de C.V., formerly known as FEMSA Cerveza. Beginning in the second quarter of 2005, we ceased including beer that we distribute in Brazil in our reported sales volumes. On April 30, 2010, the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group closed.

**Venezuela.** Our product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Per capita consumption of our beverages in Venezuela during 2011 was 150 eight-ounce servings.

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

	<b>2011</b>	<b>Year Ended December 31, 2010</b>	<b>2009</b>
<b>Total Sales Volume</b>	<b>(millions of unit cases)</b>		
Total	189.8	211.0	225.2

% Growth

(10.0%)

(6.3%)

9.0%

**Unit Case Volume Mix by Category**

**(in percentages)**

Sparkling beverages

91.7%

91.3%

91.7%

Water<sup>(1)</sup>

5.4

6.5

5.7

Still beverages

2.9

2.2

2.6



Total

100.0%

100.0%

100.0%

- (1) Includes bulk water volume.

We have implemented a product portfolio rationalization strategy that allows us to minimize the impact of certain operating disruptions that have been recurrent in Venezuela over the last several years. During 2011, we faced a 26 day strike at one of our Venezuelan production and distribution facilities and a difficult economic environment that prevented us from growing sales volume of our products. As a result our sparkling beverage volume decreased by 9.6%.

In 2011, multiple serving presentations represented 78.4% of total sparkling beverages sales volume in Venezuela, an 80 basis points increase compared to 2010. In 2011, returnable presentations represented 8.0% of total sparkling beverages sales volume in Venezuela, a 40 basis points increase compared to 2010. Total sales volume was 189.8 million unit cases in 2011, a decrease of 10.0% compared to 211.0 million unit cases in 2010

## **Seasonality**

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

## **Marketing**

Our Company, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of our products. We rely extensively on advertising, sales promotions and retailer support programs to target the particular preferences of our consumers. Our consolidated marketing expenses in 2011, net of contributions by The Coca-Cola Company, were Ps. 4,508 million. The Coca-Cola Company contributed an additional Ps. 2,561 million in 2011, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced information technology, we have collected customer and consumer information that allow us to tailor our marketing strategies to target different types of customers located in each of our territories and to meet the specific needs of the various markets we serve.

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

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

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

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

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

**Client Value Management.** We have been transforming our commercial models to focus on our customers' value potential using a value-based segmentation approach to capture the industry's potential. We started the rollout of this new model in our Mexico, Central America, Colombia and Brazil operations in 2009 and have covered close to 90% of our total volumes as of the end of 2011.

We believe that the implementation of these strategies described above also enables us to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows us to be more efficient in the way we go to market and invest our marketing resources in those segments that could provide a higher return. Our marketing, segmentation and distribution activities are facilitated by our management information systems. We have invested significantly in creating these systems, including in hand-held computers to support the gathering of product, consumer and delivery information for most of our sales routes throughout our territories.

## Product Sales and Distribution

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

### Product Distribution Summary

as of December 31, 2011

	<u>Mexico and Central America</u> <sup>(1)</sup>	<u>South America</u> <sup>(2)</sup>	<u>Venezuela</u>
Distribution centers	152	65	32
Retailers <sup>(3)</sup>	863,409	663,678	209,597

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

(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

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

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

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

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

**Mexico.** We contract with a subsidiary of FEMSA for the transportation of finished products to our distribution centers from our Mexican production facilities. See **"Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions."** From the distribution centers, we then distribute our finished products to

retailers through our own fleet of trucks.

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

**Brazil.** In Brazil, we sold 21.1% of our total sales volume through supermarkets in 2011. Also in Brazil, the delivery of our finished products to customers is completed by a third party, while we maintain control over the selling function. In designated zones in Brazil, third-party distributors purchase our products at a discount from the wholesale price and resell the products to retailers.

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

## **Competition**

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

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

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

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

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

In 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 beer brands. We also compete against “B brands” or “Tubainas,” which are small, local producers of low cost flavored sparkling beverages in multiple serving presentations that represent a significant portion of the sparkling beverage market.

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



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

## **Raw Materials**

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

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

In addition to concentrate, we purchase sweeteners, carbon dioxide, resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of our beverages. Our bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company, including affiliates of FEMSA. Prices for packaging materials and HFCS historically have been determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Our most significant packaging raw material costs arise from the purchase of resin, plastic ingots to make plastic bottles and finished plastic bottles, which we obtain from international and local producers. The prices of these materials are tied to crude oil prices and global resin supply. In recent years we have experienced volatility in the prices we pay for these materials. Across our territories, our average price for resin in U.S. dollars increased approximately 30% in 2011 as compared to 2010.

Under our agreements with The Coca-Cola Company, we may use raw or refined sugar or HFCS 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. In recent years, international sugar prices experienced significant volatility.

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

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

We purchase all of our cans from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which, as of April 20, 2012, we hold a 25.0% equity interest. We mainly purchase our glass bottles from Compañía Vidriera, S.A. de C.V., known as VITRO, and Glass & Silice, S.A. de C.V., (formerly Vidriera de Chihuahua, S.A. de C.V., or VICHISA), a wholly-owned subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza), currently a wholly-owned subsidiary of the Heineken Group.

We purchase sugar from, among other suppliers, Piasa and Beta San Miguel, S.A. de C.V., or Beta San Miguel, both sugar cane producers in which, as of April 20, 2012, we hold an approximate 13.2% and 2.5% equity interest, respectively. We purchase HFCS from CP Ingredientes, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Imported sugar is subject to import duties, the amount of which is set by the Mexican government. As a result, sugar prices in Mexico are in excess of international market prices for sugar, and in 2011, were 47% higher on average in Mexico. In 2011, sugar prices increased approximately 29% as compared to 2010.

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

**South America (excluding Venezuela).** In Colombia, we use sugar as a sweetener in most of our products, which we buy from several domestic sources. During 2011, we started to use HFCS as an alternative sweetener for our products. We purchase HFCS from Archer Daniels Midland Company. We purchase plastic bottles from Amcor and Tapón Corona de Colombia S.A. We purchase all our glass bottles from Peldar O-I and cans from Crown, both suppliers in which Grupo Ardila Lulle, owners of our competitor Postobón, own a minority equity interest. Glass bottles and cans are available only from these local sources.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels, and our average acquisition cost for sugar in 2011 increased approximately 30% as compared to 2010. **See “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Commodity Price Risk.”** We purchase glass bottles, plastic bottles and cans from several domestic and international suppliers.

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

**Venezuela.** We use sugar as a sweetener in all of our products, which we purchase mainly from the local market. Since 2003, from time to time, we have experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. While sugar distribution to the food and beverages industry and to retailers is controlled by the government, we did not experience any disruptions during 2011 with respect to access to sufficient sugar supply. However, we cannot assure you that we will not experience disruptions in our ability to meet our sugar requirements in the future should the Venezuelan government impose restrictive measures in the future. We buy glass bottles from one local supplier, Productos de Vidrio, S.A., but there are alternative suppliers authorized by The Coca-Cola Company. We acquire most of our plastic non-returnable bottles from ALPLA de Venezuela, S.A. and all of our aluminum cans from a local producer, Dominguez Continental, C.A.

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

## REGULATION

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

### Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which we operate. Currently, there are no price controls on our products in any of the territories in which we have operations, except for (i) Argentina, where authorities directly supervise certain products sold through supermarkets to control inflation; and (ii) Venezuela, where the government has recently imposed price controls on certain products including still bottled water. **See “Item 3. Key Information—Risk Factors—Regulatory developments may adversely affect our business.”**

### Taxation of Sparkling Beverages

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

- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.3221 as of December 31, 2011) per liter of sparkling beverage.
- Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 15.50 colones (Ps. 0.4180 as of December 31, 2011) per 250 ml, and an excise tax on local brands of 5%, foreign brands of 10% and mixers of 14%.
- Nicaragua imposes a 9% tax on consumption, and municipalities impose a 1% tax on our Nicaraguan gross income.
- Panama imposes a 5% tax based on the cost of goods produced. Panama also imposes a 10% selective consumption tax on syrups, powders and concentrate.
- Brazil imposes an average production tax of approximately 4.9% and an average sales tax of approximately 9.6%, both assessed by the federal government. Most of these taxes are fixed, based on average retail prices in each state where the company operates (VAT) or fixed by the federal government (excise and sales tax).
- Argentina imposes an excise tax on sparkling beverages containing less than 5% lemon juice or less than 10% fruit juice of 8.7%, and an excise tax on flavored sparkling beverages with 10% or more fruit juice and on sparkling water of 4.2%, although this excise tax is not applicable to certain of our products.

### Water Supply Law

In Mexico, we obtain water directly from municipal utility 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), which was amended in 2004, and regulations issued thereunder, which created the *Comisión Nacional del Agua* (the National Water Commission). The National Water Commission is in charge of overseeing the national system of water use. Under the 1992 Water Law, as amended, concessions for the use of a specific volume of ground or surface water generally run from five to fifty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms be extended before the expiration of the same. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for two consecutive years. However, because the current concessions for each of our plants in Mexico do not match each plant's projected needs for water in future years, we successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. Our concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations in a timely manner. Although we have not undertaken independent studies to confirm the sufficiency of the existing or future groundwater supply, we believe that our existing concessions satisfy our current water requirements in Mexico.

In Argentina, a state water company provides water to our Alcorta plant on a limited basis; however, we believe the authorized amount meets our requirements for this plant. In our Monte Grande plant in Argentina, we pump water from our own wells, in accordance with Law 25.688.

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

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

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

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

## **Environmental Matters**

In all of our territories, our operations are subject to federal and state laws and regulations relating to the protection of the environment. In Mexico, the principal legislation is the *Ley General de Equilibrio Ecológico y Protección al Ambiente* (the Federal General Law for Ecological Equilibrium and Environmental Protection) or the Mexican Environmental Law and the *Ley General para la Prevención y Gestión Integral de los Residuos* (the General Law for the Prevention and Integral Management of Waste) which are enforced by the *Secretaría del Medio Ambiente y Recursos Naturales* (the Ministry of the Environment and Natural Resources, or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set

forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have implemented several programs designed to facilitate compliance with air, waste, noise and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City. See “—The Company—Total Sales Distribution.”



In addition, we are subject to the 1992 Water Law, as amended, enforced by the Mexican National Water Commission. The 1992 Water Law, as amended, provides that plants located in Mexico that use deep water wells to supply their water requirements must pay a fee to the local governments for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the Mexican National Water Commission; in case of non-compliance with the law, penalties may be imposed, including closures. All of our bottler plants located in Mexico have met these standards. In addition, our plants in Apizaco and San Cristóbal are certified with ISO 14001. See “—Description of Property, Plant and Equipment.”

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

As part of our environmental protection and sustainability strategies, in December 2009, we, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply green energy to our bottling facility in Toluca, Mexico, owned by our subsidiary, Propimex, S. de R.L. de C.V., or Propimex, and to some of our suppliers of PET bottles. The wind farm, which is located in La Ventosa, Oaxaca, is expected to generate approximately 100 thousand megawatt hours annually. The energy supply services began in April 2010 and, during 2010, provided us with approximately 45 thousand megawatt hours. In 2010, GAMESA sold its interest in the Mexican subsidiary that owned the above mentioned wind farm to Iberdrola Renovables México, S.A. de C.V.

Additionally, several of our subsidiaries have entered into 20-year wind power supply agreements with Energía Alterna Istmeña, S. de R.L. de C.V. and Energía Eólica Mareña, S.A. de C.V. (together, the Mareña Renovables Wind Power Farm) to receive electrical energy for use at our production and distribution facilities throughout Mexico. The Mareña Renovables Wind Farm will be located in the state of Oaxaca and we expect that it will begin operations in 2013.

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



Our Colombian operations are subject to several Colombian federal, state and municipal laws and regulations related to the protection of the environment and the disposal of treated water and toxic and hazardous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. For our plants in Colombia, we have obtained the *Certificación Ambiental Fase IV* (Phase IV Environmental Certificate) demonstrating our compliance at the highest level with relevant Colombian regulations. We are also engaged in nationwide campaigns for the collection and recycling of glass and plastic bottles as well as reforestation programs. In 2011, jointly with the FEMSA Foundation, we were awarded with the “Western Hemisphere Corporate Citizenship Award” for the social responsibility programs we carried out to respond to the extreme weather experienced in Colombia in 2010 and 2011, known locally as the “winter emergency.” In addition, we also obtained the ISO 9001, ISO-22000 and PAS 220 for our plants located in Medellin, Cali, Bogota, Barranquilla, Bucaramanga and La Calera, as recognition for the highest quality in our production processes.

Our Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (the Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (the Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (the Criminal Environmental Law) and the *Ley de Aguas* (the Water Law). Since the enactment of the Organic Environmental Law in 1995, our Venezuelan subsidiary has presented the proper authorities with plans to bring our production facilities and distribution centers into compliance with applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in our bottling facilities. Even though we have had to adjust some of the originally proposed timelines due to construction delays, in 2009, we completed the construction and received all the required permits to operate a new water treatment plant in our bottling facility located in the city of Barcelona. At the end of 2011, we concluded the construction of a new water treatment plant in our bottling plant in the city of Valencia, which will start operations in February 2012. During 2011, we also commenced construction of a new water treatment plant in our Antimano bottling plant in Caracas, which construction is expected to conclude during the second quarter of 2012. We are also concluding the process of obtaining the necessary authorizations and licenses before we can begin the construction and expansion of our current water treatment plant in our bottling facility in Maracaibo. In December 2011 we obtained ISO 14000 certification for all of our plants in Venezuela.

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

Our Brazilian operations are subject to several federal, state and municipal laws and regulations related to the protection of the environment. Among the most relevant laws and regulations are those dealing with the emission of toxic and hazardous gases and disposal of wastewater and solid waste, soil contamination by hazardous chemicals, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance.

Our production plant located in Jundiá has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant has been certified for (i) ISO 9001 since 1993; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; (iv) ISO 22000 since 2007; and (v) PAS: 96 since 2010. In Brazil it is also necessary to obtain concessions from the government to cast drainage. Our plants in Brazil have been granted this concession, except Mogi das Cruzes, where we have timely begun the process of obtaining one. In December, 2010 we increased the capacity of the water treatment plant in our Jundiá facility.

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

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

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

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

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

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

### **Other regulations**

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

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

impact on us.

In July 2011 the Venezuelan government passed the *Ley de Costos y Precios Justos* (Fair Costs and Prices Law). The purpose of this law is to establish the regulations and administrative processes necessary to maintain the price stability of, and equal access to, goods and services. The law also creates the National Ministry of Costs and Prices, whose main role is to oversee price controls and set maximum retail prices on certain consumer goods and services. Of our products, only certain of our still water beverages were affected by these regulations, which mandated to lower our sale prices as of April 2012. Any failure to comply with this law would result in fines, temporary suspension or the closure of operations. While we are currently in compliance with this law, we cannot assure you that the Venezuelan government's future regulation of goods and services will not result in a forced reduction of prices in other of our products, which could have a negative effect on our results of operations.

In January 2012, the Costa Rican government approved a decree which regulates the sale of food and beverages in schools. The decree came into effect in 2012. Enforcement of this law will be gradual, from 2012 to 2014, depending on the specific characteristics of the food and beverage in question. According to the decree, the sale of specific sparkling beverages and still beverages that contain sugar, syrup or HFCS in any type of presentation in schools is prohibited. We will still be allowed to sell water and certain still beverages in schools. We cannot assure you that the Costa Rican government will not further restrict sales of other of our products in schools in the future; any such further restrictions could lead to an adverse impact on our results of operations.

## BOTTLER AGREEMENTS

### Coca-Cola Bottler Agreements

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers outside the United States. Pursuant to our bottler agreements, we are authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and we are required to purchase in some of our territories for all *Coca-Cola* trademark beverages concentrate from companies designated by The Coca-Cola Company and artificial sweeteners from companies authorized by The Coca-Cola Company.

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

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

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



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

- undertake adequate quality control measures prescribed by The Coca-Cola Company;
- develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;
- maintain a sound financial capacity as may be reasonably necessary to assure performance by us and our affiliates of our obligations to The Coca-Cola Company; and
- submit annually to The Coca-Cola Company our marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of our total marketing expenses in our territories during 2011 and has reiterated its intention to continue providing such support as part of our cooperation framework. Although we believe that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. See **“Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—The Shareholders Agreement”** and **“Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—Cooperation Framework with The Coca-Cola Company.”**

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

As of December 31, 2011, we had seven bottler agreements in Mexico, with each one corresponding to a different territory: (i) the agreements for Mexico’s Valley territory expires in June 2013 and April 2016, (ii) the agreements for the Central territory expires in May 2015 and July 2016, (iii) the agreement for the Northeast territory expires in September 2014, (iv) the agreement for the Bajío territory expires in May 2015, and (v) the agreement for the Southeast territory expires in June 2013. Our bottler agreements with The Coca-Cola Company will expire for our territories in other countries as follows: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014.

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

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



## DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

As of December 31, 2011, we owned 35 bottling plants company-wide. By country, we have fourteen bottling facilities in Mexico, five in Central America, six in Colombia, four in Venezuela, four in Brazil and two in Argentina.

As of December 31, 2011, we operated 249 distribution centers, approximately 51% of which were in our Mexican territories. We own more than 86% of these distribution centers and lease the remainder. See “—The Company—Product Sales and Distribution.”

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

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

<b>Country</b>	<b>Bottling Facility Summary As of December 31, 2011</b>	<b>% Utilization<sup>(1)</sup></b>
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	<b>Installed Capacity (thousands of unit cases)</b>	
Mexico	1,897,760	70%
Guatemala	34,544	80%
Nicaragua	65,475	58%
Costa Rica	84,238	54%
Panama	40,754	64%
Colombia	531,046	47%
Venezuela	296,052	63%
Brazil	650,356	68%
Argentina	316,040	66%

(1) Annualized rate.





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

**Bottling Facility by Location**  
**As of December 31, 2011**

<b>Country</b>	<b>Plant</b>	<b>Facility Area (thousands of sq. meters)</b>
Mexico	San Cristóbal de las Casas, Chiapas	45
	Cuautitlán, Estado de México	35
	Los Reyes la Paz, Estado de México	50
	Toluca, Estado de México	242
	León, Guanajuato	124
	Morelia, Michoacán	50
	Ixtacomitán, Tabasco	117
	Apizaco, Tlaxcala	80
	Coatepec, Veracruz	142
	La Pureza Altamira, Tamaulipas	300
	Poza Rica, Veracruz	42
	Pacífico, Estado de México	89
	Cuernavaca, Morelos	37
	Toluca, Estado de México	41
	Guatemala	Guatemala City
Nicaragua	Managua	54
Costa Rica	Calle Blancos (San José)	52
	Coronado (San José)	14
Panama	Panama City	29
Colombia	Barranquilla	37
	Bogotá	105
	Bucaramanga	26
	Cali	76
	Manantial	67
	Medellín	47
Venezuela	Antímano	15
	Barcelona	141
	Maracaibo	68
Brazil	Valencia	100
	Campo Grande	36
	Jundiaí	191
	Mogi das Cruzes	119
Argentina	Belo Horizonte	73
	Alcorta	73
	Monte Grande (Buenos Aires)	32

**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, 2011:

<b>Name of Company</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage Owned</b>	<b>Description</b>
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Propimex, S. de R.L. de  
C.V.<sup>(1)</sup>

Mexico

100.0%

Manufacturer of bottles and distributor of bottled  
beverages.

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

100.0% Holding company of manufacturers and  
distributors of beverages.



Mexico

Spal Industria Brasileira de  
Bebidas, S.A.

97.9%

Manufacturer of cans and related products for  
bottling beverages and distributor of bottled  
beverages.



Brazil

Coca-Cola FEMSA de  
Venezuela S.A. (formerly,  
Panamco Venezuela, S.A. de  
C.V.)

100.0%

Manufacturer of bottles and related products for  
bottling beverages and distributor of bottled  
beverages.

Venezuela





(1) On March 2, 2012, Propimex, S.A. de C.V. was converted into Propimex, S. de R.L. de C.V. (a limited liability company).



**Item 4A. Unresolved Staff Comments**



None.

**Item 5. Operating and Financial Review and Prospects**

## General

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements including the notes thereto. Our consolidated financial statements were prepared in accordance with Mexican Financial Reporting Standards, which differ in certain respects from U.S. GAAP. Notes 26 and 27 to our consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, together with reconciliation to U.S. GAAP of net income and equity.

**Average Price Per Unit Case.** We use average price per unit case to analyze average pricing trends in the different territories in which we operate. We calculate average price per unit case by dividing net sales by total sales volume. Sales of beer in Brazil, which are not included in our sales volumes, are excluded from this calculation.

**Effects of Changes in Economic Conditions.** Our results from operations are affected by changes in economic conditions in Mexico and in the other countries in which we operate. For the years ended December 31, 2011, 2010, and 2009, 35.7%, 37.5%, and 35.8%, respectively, of our total revenues were attributable to Mexico. In addition to Mexico, we also conduct operations in Central America, Colombia, Venezuela, Brazil and Argentina.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate. Decreases in economic growth rates, periods of negative growth, devaluation of local currencies, increases in inflation or interest rates and political developments may result in lower demand for our products, lower real pricing or a shift to lower margin products or lower margin presentations.

The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. In addition, an increase in interest rates in Mexico would increase our cost of Mexican peso-denominated variable interest rate indebtedness and would have an adverse effect on our financial condition. Depreciation of the Mexican peso relative to the U.S. dollar increases the cost to us of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and thereby may negatively affect our financial condition.

## Recent Developments

As previously announced by the CNBV, commencing in 2012, all Mexican public companies must report their financial information in accordance with IFRS. Since 2006, the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* (Mexican Board of Research and Development of Financial Reporting Standards) has been modifying Mexican FRS in order to ensure their convergence with IFRS. As required, starting on January 1, 2012, we are reporting our financial information in accordance with IFRS on a comparable basis.

On December 15, 2011, the Company entered into an agreement to merge the beverage division of Grupo Fomento Queretano into the Company. Grupo Fomento Queretano's beverage division operates mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The merger agreement was approved by both Coca-Cola FEMSA's and Grupo Fomento Queretano's boards of directors and is subject to the approval of the Mexican Antitrust Commission, and the shareholder's meetings of both companies. The transaction will involve the issuance of approximately 45.1 million of the company's newly issued series L shares, and in addition the company will assume Ps. 1,221 in net debt. This transaction is expected to be completed in second quarter of 2012.



In February 2012, our Board of Directors proposed an ordinary dividend of Ps. 2.77 per share outstanding on the payment date, which, at the time of filing, is anticipated to be May 30, 2012. This dividend was approved at the Annual Shareholders' meeting on March 20, 2012.

In February 2012, we entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. We remain in the process of evaluating this potential acquisition.

On March 29, 2012, we issued a press release containing Non-Audit Financial Results for the year 2011 prepared in accordance with Mexican FRS and translated to IFRS for comparison purposes.

### **Critical Accounting Estimates**

The preparation of our consolidated financial statements requires that we make estimates and assumptions that affect (1) the recorded amounts of our assets and liabilities, (2) the disclosure of our estimates of assets and contingent liabilities as of the date of the financial statements and (3) the recorded amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience and on various other reasonable factors, which together form the basis for making judgments about the carrying values of our assets and liabilities. Our actual conclusions may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an on going basis. Our significant accounting policies are described in Note 4 to our consolidated financial statements. We believe our most critical accounting policies that imply the application of estimates and/or judgments are:

***Allowance for Doubtful Accounts.*** We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivables portfolio. The amount of the allowance is based on an analysis of recoverability of each balance. Most of our sales, however, are realized on a cash basis and consequently do not give rise to doubtful accounts.

***Returnable and Non-Returnable Bottles and Cases.*** The Company has two types of bottles; returnable and non-returnable.

- Non returnable: Are recorded in the results of operations at the time of product sale; and
- Returnable: Are classified as long-lived assets as a component of property, plant and equipment.

Returnable bottles are recorded at acquisition cost for countries with inflationary economy then restated applying inflation factors as of the balance sheet date, according to NIF B-10. There are two types of returnable bottles:

- Those that are in the Company's control within its facilities, plants and distribution centers; and
- Those that have been placed in the hands of customers, but still belong to the Company.

Depreciation of returnable bottles is computed using the straight-line method over acquisition cost. The Company estimates depreciation rates considering their estimated useful lives.

Returnable bottles that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which the Company retains ownership. These bottles are monitored by sales personnel during periodic visits to retailers and the Company has the right to charge any breakage identified to the retailer. Bottles that are not subject to such agreements are expensed when placed in the hands of retailers.

The Company's returnable bottles in the market and for which a deposit from customers has been received are presented net of such deposits, and the difference between the cost of these assets and the deposits received is depreciated according to their useful lives.

***Property, Plant and Equipment and Other Assets.*** We depreciate property, plant and equipment and other assets over their useful lives. The estimated useful lives represent the period we expect the assets to remain in service and to generate revenues. Where an item of Property Plant and Equipment comprises major components having different useful lives, they are accounted and depreciated for as a separate item (major components) of Property Plant and Equipment. We base our estimates on the experience of our technical personnel. Depreciation is computed using the straight-line method.

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

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

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

**Impairment of Intangible Assets (with indefinite and definitive lives) and Long-Lived Assets.** We continually review the carrying value of our intangible assets and long-lived assets for accuracy. We review for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable based on our projections of anticipated future cash flows. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations. This test is performed annually or more frequently if deemed necessary.

Our evaluations indicate that no significant impairment of intangible assets or long-lived assets has been required. We can give no assurance that our expectations will not change as a result of new information or developments. Changes in economic or political conditions in all the countries in which we operate or in the industries in which we participate, however, may cause us to change our current assessment.

**Labor Liabilities.** Our labor liabilities include obligations for pension and retirement plans, seniority premiums and severance payments from causes other than restructuring. Labor liabilities are determined using long-term assumptions.

We evaluate our assumptions at least annually. Those assumptions include the discount rate, expected long-term rate of return on plan assets, rates of increase in compensation costs and certain employee-related factors, such as turnover, retirement age and mortality rate. The assumptions include the economic risks existing in the countries in which our business operates.

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

The following table is a summary of the three key assumptions used in determining 2011 annual labor cost, along with the impact on pension cost of a 1% change in each assumed rate:

<b>Assumption</b>	<b>2011 real rates for inflationary countries<sup>(1)</sup></b>	<b>2011 nominal rates for noninflationary countries<sup>(1)</sup></b>	<b>Impact of 1% change (millions)<sup>(2)</sup></b>
Annual discount rate	1.5% - 2.2%	5.5% - 9.7%	+ Ps. (208) - Ps. 304
Salary increase	1.0% - 1.5%	4.0% - 6.5%	+ Ps. 217 - Ps. 144
Estimated return on plan assets	0.5% <sup>(3)</sup>	7.0% - 9.7% <sup>(3)</sup>	+ Ps. 30

(1) Calculated using a measurement date of December 2011.

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

(3) Not applicable for Colombia and Guatemala.

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

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

**Tax, Legal and Labor Contingencies.** We are subject to various claims and contingencies related to tax, labor and other legal proceedings. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a liability and/or discloses the applicable relevant circumstances, as appropriate. We accrue a liability for the estimated loss in accordance with accounting rules.

### **New Accounting Pronouncements**

Presented below is a summary of recently issued accounting pronouncements.

#### ***Mexican Financial Reporting Standards.***

a) NIF B-5 “Financial Information by Segment”



In 2011, the Company adopted NIF B-5 “Financial Information by Segment”, which superseded Bulletin B-5. NIF B-5 establishes that an operating segment shall meet the following criteria: i) the segment engages in business activities from which it earns, or is in the process of obtaining revenues, and incurs related costs and expenses; ii) the operating results are reviewed regularly by the entity’s primary decision maker; and iii) specific financial information is available. NIF B-5 also requires disclosure of operating segments subject to reporting, including details of earnings, assets and liabilities, reconciliations, information about products and services, and geographical areas. This pronouncement was applied retrospectively for comparative purposes, although it had no impact, on the key segment indicators already disclosed in Note 25.

*b) NIF B-9 “Interim Financial Reporting”*

The Company adopted NIF B-9 “Interim Financial Reporting”, which prescribes the content to be included in a complete or condensed set of financial statements for an interim period. The adoption of NIF B-9 did not impact the Company’s annual financial statements.

*c) NIF C-4 “Inventories”*

In 2011, the Company adopted NIF C-4 “Inventories”, which replaces Mexican accounting Bulletin C-4, Inventories. NIF C-4 does not allow the use of direct costs as the inventory valuation method nor does it allow the use of the LIFO cost method. NIF C-4 establishes that inventories must be valued at the lower of acquisition cost or net realizable value. This standard also establishes that advances to suppliers for the acquisition of merchandise must be classified as inventories provided the risks and benefits of the inventories are transferred to the Company. The *application* of this standard did not impact the actual inventory valuation of the Company. NIF C-4 was applied retrospectively causing a reclassification between “advances to suppliers” and “inventory balances” reported as of December 31, 2010 of Ps. 123 million. Similar reclassifications were made in the 2010 and 2009 consolidated statement of cash flows.

*d) NIF C-5 “Prepaid Expenses”*

In 2011, the Company adopted NIF C-5 “Prepaid Expenses”, which replaced Mexican accounting Bulletin C-5, Prepaid Expenses. This standard establishes that the main characteristic of prepaid expenses is that they do not result in the transfer to the entity of the benefits and risks inherent to the goods or services to be received. Consequently, prepaid expenses must be recognized in the balance sheet as either current or non-current assets, depending on the item’s classification in the statement of financial position. Moreover, NIF C-5 establishes that prepaid expenses made for goods or services whose inherent benefits and risks have already been transferred to the entity must be carried to the appropriate caption. The accounting changes resulting from the adoption of this standard were recognized retrospectively, causing a reclassification between “other current assets” (see Note 8) and “other assets” (see Note 12). This standard also resulted in reclassifications to prepaid expenses of Ps. 349 million which were reclassified from “inventories” of Ps. 123 million, and property, plant, and equipment of Ps. 226 million, as of December 31, 2010. Similar reclassifications were made in the 2010 and 2009 consolidated statement of cash flows.

*e) NIF C-6, “Property, Plant and Equipment”*

In 2011, the Company adopted NIF C-6 “Property, Plant and Equipment”, which replaced Mexican accounting Bulletin C-6, Property, Machinery and Equipment. This new standard was effective for fiscal years beginning on or after January 1, 2011. The component of the new standard related to the segregation of property, plant and equipment into separate components for those assets with different useful lives could optionally have been deferred until 2012, although this requirement has been applied by the Company since prior years and will not impact the consolidated financial statements.

In the case of asset exchanges, NIF C-6 requires entities to determine the commercial substance of the transaction, and the depreciation of all assets must be applied against the components of the assets, and the amount to be depreciated is the cost of acquisition less the asset’s residual value. Moreover, NIF C-6 clarifies that regardless of whether the use or

non-use of the asset is temporary or indefinite, it should not cease the depreciation **charge**. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. There are also specific disclosures for public entities such as: additions, disposals, depreciation, impairments, among others. This standard was adopted and did not impact the Company's financial statements, except for reclassification to property, plant and equipment as of December 31, 2010 as a result of the presentation of prepaid expenses (see Note 2 d) and additional disclosures, and the incremental disclosures presented in Note 10.

*f) NIF C-18, "Obligations related to retirement of property, plant and equipment"*

On January 1, 2011, the Company adopted NIF C-18, which establishes the accounting treatment for the initial and subsequent recognition of a liability for legal obligations related to the retirement of property, plant and equipment recognized as a result of the acquisition, construction, development and/or normal operation of such components.

This standard also establishes that an entity must initially recognize a provision for obligations related to retirement of property, plant and equipment based on its best estimate of the disbursements required to settle the present obligation at the time it is assumed, provided a reliable estimate can be made of the amount of the obligation. The best estimate of a provision for an obligation associated with the retirement of property, plant and equipment components should be determined using the expected present value method. The adoption of NIF C-18 did not impact the Company's financial statements.

***U.S. GAAP.***

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

***Implementation of IFRS.***

As described in Note 28 to our audited consolidated financial statements, we have adopted IFRS for the preparation of our financial information beginning in 2012. Pursuant to current SEC reporting requirements, foreign private issuers may provide in their SEC filings financial statements prepared in accordance with IFRS, without a reconciliation to U.S. GAAP.

The consolidated financial statements that we issue for the year ending December 31, 2012 will be our first annual financial statements prepared in accordance with IFRS. Our IFRS transition date is January 1, 2011, and accordingly, the year ended December 31, 2011 will constitute part of the comparative period covered by IFRS 1, "First-Time Adoption of International Financial Reporting Standards" (which we refer to as IFRS 1). We have therefore applied all mandatory exemptions and certain optional exemptions from the retrospective application of IFRS provided by IFRS 1.

We have applied the following mandatory exemptions from retrospective application of IFRS, effective as of our IFRS transition date:

*Estimates*

The estimates conducted by the Company under IFRS 1 as of the Transition Date are consistent with the estimates previously recorded under Mexican FRS at that same date.

*Derecognition of financial assets and liabilities*

At the Transition Date, the Company was required to apply the rules under IAS 39, *Financial Instruments: Recognition and Measurement*, and derecognize financial assets and liabilities that occurred at such date which do not comply with the classification criteria under IAS 39. However, there was no impact related to the application of this exception.

*Hedge accounting*

As of the transition date, the Company measured at fair value all derivative financial instruments and hedging relationships designated and documented effectively as accounting hedges as required by IAS 39, which is consistent with the treatment under Mexican FRS. As a result, there was no impact in the Company's consolidated financial statements due to the application of this exception.

*Non-controlling interest*

The Company applied the requirements under IAS 27, *Consolidated and Separate Financial Statements*, related to non-controlling interest equity prospectively beginning on the Transition Date. There was no impact related to the application of this exception.

We have applied the following optional exemptions from retrospective application of IFRS:

*Business Combinations*

According to IFRS 1, an entity may elect not to apply IFRS 3 “*Business Combinations*” retrospectively to business combinations made prior of the transition date to IFRS. The Company adopted this exemption and did not amend its business combination accounting prior of the Transition Date. Accordingly, it did not re-measure the values determined at the previous acquisition dates, including the amount of distribution rights previously recorded.

#### *Deemed Cost*

An entity may elect to measure an item or all of property, plant and equipment at the Transition Date at its fair value and use that fair value as its deemed cost at that date. In addition, a first-time adopter may elect to use a previous GAAP’s revaluation of an item of property, plant and equipment at, or before, of the Transition Date as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: (i) fair value; or (ii) cost or depreciated cost in accordance with IFRS, adjusted to reflect changes in a general or specific price index.

The Company has presented both its property, plant, and equipment and its intangible assets at IFRS historical cost in all countries. In Venezuela, this IFRS historical cost represents actual historical cost in the year of acquisition, indexed for inflation in a hyper-inflationary economy based on the provisions of IAS 29.

#### *Cumulative Translation Effect*

A first-time adopter is neither required to recognize translation differences in other comprehensive income and accumulate these in a separate component of equity, nor on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation from equity to profit or loss as part of the gain or loss on disposal.

The Company applied this exemption and consequently it reclassified the accumulated translation effect recorded under Mexican FRS to retained earnings and beginning January 1, 2011, it will calculate the translation effect prospectively according to International Accounting Standard (“IAS”) 21, *The Effects of Changes in Foreign Exchange Rates*.

#### *Borrowing Costs*

A first-time adopter may apply the transitional provisions set out in IAS 23 related to the effective date which shall be interpreted as January 1, 2009 or of the transition date to IFRS, whichever is later.

The Company applied the exemption set out for borrowing costs maintaining the qualifiable assets existing at the transition date and beginning January 1, 2011 it will capitalize its interest costs in accordance with IAS 23, *Borrowing Costs*.

#### ***Recording Effects of the Transition from Mexican FRS to IFRS***

The following disclosures provide a qualitative description of the most significant expected effects of the transition to IFRS determined as of the date of the issuance of these consolidated financial statements:

#### *Inflation Effects*

For the purposes of Mexican FRS B-10, the effects of inflation on financial information must be recognized when the economic environment of the entity is inflationary, that is, when cumulative inflation of the three preceding years is

equal to or larger than the 26%. On the other hand, IAS 29 considers an economy as hyper-inflationary when the cumulative inflation over three years approaches or exceeds 100% among other indicators. The last hyperinflationary period for Mexico was 1997, for Brazil was in 1997 prior to the Company's acquisition of its Brazilian operations, and for Argentina was 1994. Accordingly, the Company has eliminated previously recorded inflationary effects in Mexico for the period 1998 through 2007. For foreign subsidiaries, the accumulated inflation from the acquisition date was eliminated (except in the case of Venezuela, which was deemed a hyperinflationary economy) from the date the Company began to consolidate them.

### *Employee Benefits*

According to Mexican FRS D-3, a severance provision and the corresponding expenditure must be recognized as the entity intends to terminate the employment relationship before the retirement date, or intends to pay benefits as a result of an offer made to employees to encourage a voluntary termination. For IFRS purposes, this provision is recorded pursuant to IAS 19 (revised), Employee Benefits, when the actions of the Company has demonstrated commitment to end the relationship with the employee or a bid to encourage voluntary retirement. This action is shown with a formal plan that describes the characteristics of the termination of employment. Accordingly, at the Transition Date, the Company eliminated its severance indemnity liability against retained earnings.

The Company has also anticipated the application of IAS 19 (revised), which eliminates the use of the fluctuation band (i.e. corridor method), which tends to defer the actuarial gains/losses, and requires recording them in other comprehensive income. IAS 19 (revised) also eliminates the possibility of deferring the recognition of past services and requires recording them in operations. This resulted in the Company increasing in its liability for employee benefits against retained earnings at the Transition Date.

### *Bonus Program*

Under Mexican FRS the Company recognizes its bonus program plan offered to certain key executives as a defined contribution plan, according to Mexican FRS D-3, *Employee benefits*. Meanwhile IFRS considers this bonus program plan, shall be recorded under the principles set forth IFRS 2, *Sharebased Payments*.

The Company recorded its bonus program plan according to IFRS 2 *Share-based Payment*. The most significant difference for changing the accounting treatment is related to the period during which a compensation expense is recognized, under Mexican FRS D-3 the total amount of the share is recorded in the period in which it was granted, while in IFRS 2 it shall be recognized in the gains or losses during the period the employee vests rights related to such awards. In recording the adoption of IFRS 2, the Company applied transitional provisions whereby it did not record vested amounts prior to the Transition Date.

### *Deferred income Tax*

The IFRS adjustments recognized by the Company had an impact on the calculation of deferred income taxes according to the requirements established by IAS 12, *Income Taxes*.

### *Retained Earnings*

All the adjustments arising from the Company's conversion to IFRS as of the Transition Date were recorded in retained earnings.

### *Other differences in presentation and disclosures in the financial statements*

Generally, IFRS disclosure requirements are more extensive than those of NIF, which will result in increased disclosures about accounting policies, significant judgments and estimates, financial instruments and management risks, among others. In addition, there may be differences in presentation.

There are other differences between Mexican FRS and IFRS, however, the Company considers differences mentioned above describe the significant effects identified as of the Transition Date.





The effects of the foregoing are as follows, as of the January 2011 Transition Date:

	Mexican FRS	IFRS Transition Effects	Preliminary IFRS
Current assets	Ps. 26,436	Ps. (38)	Ps. 26,398
Non-current assets	87,625	(10,523)	77,102
<b>Total assets</b>	<b>Ps. 114,061</b>	<b>(10,561)</b>	<b>103,500</b>
Current liabilities	Ps. 17,646	Ps. 6	Ps. 17,652
Non-current liabilities	22,534	(1,871)	20,663
<b>Total liabilities</b>	<b>40,180</b>	<b>(1,865)</b>	<b>38,315</b>
<b>Total equity</b>	<b>Ps. 73,881</b>	<b>Ps. (8,696)</b>	<b>Ps. 65,185</b>

The above IFRS figures should be construed as “preliminary IFRS” as the Company will be adopting IFRS as of December 31, 2012 based on the IFRS that are outstanding and in-force as of that date. The information presented above has been prepared based on the IFRS that the Company believes will be effective at December 31, 2012, or issued and early adopted by the Company at the date of preparation of these consolidated financial statements. The standards and interpretations that will actually be applicable to December 31, 2012, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the consolidated financial statements. Additionally, the accounting policies selected by the Company may change as a result of changes in the economic or industry trends that are observable after the issuance of these consolidated financial statements. Accordingly, the above disclosed information is subject to change.

The information presented above, does not intend to comply with IFRS, in that under IFRS, only one set of financial statements comprising the balance sheet, comprehensive income statement, statement of changes in equity and cash flow, together with comparative information and explanatory notes, can provide a fair presentation of the financial position of the Company, the results of its operations and cash flows. Not all such information is presented above.

**Results from Operations**

The following table sets forth our consolidated income statement for the years ended December 31, 2011, 2010 and 2009.

	<b>Year Ended December 31,</b>							
	<b>2011</b>		<b>2010</b>		<b>2009</b>			
<b>(2011, 2010 and 2009 in millions of Mexican pesos or millions of U.S. dollars except share and per share data)</b>								
<b>Revenues:</b>								
Net sales	US\$	8,893	Ps.	124,066	Ps.	102,988	Ps.	102,229
Other operating revenues		47		649		468		538
Total revenues		8,940		124,715		103,456		102,767
Cost of goods sold		4,838		67,488		55,534		54,952
Gross profit		4,102		57,227		47,922		47,815
<b>Operating expenses:</b>								
Administrative		372		5,184		4,449		5,308
Selling		2,285		31,891		26,394		26,672
		2,657		37,075		30,843		31,980
Income from operations		1,445		20,152		17,079		15,835
Other expenses, net		167		2,326		1,292		1,449
<b>Comprehensive financing result:</b>								
Interest expense		124		1,736		1,748		1,895
Interest income		(43)		(601)		(285)		(286)
Foreign exchange loss		(4)		(62)		423		370
Gain on monetary position in inflationary subsidiaries		(11)		(155)		(414)		(488)
Market value loss (gain) on ineffective portion of derivative financial instruments		10		140		(244)		(118)
		76		1,058		1,228		1,373
Income before income taxes.		1,202		16,768		14,559		13,013
Income taxes		401		5,599		4,260		4,043
Consolidated net income	US\$	801	Ps.	11,169	Ps.	10,299	Ps.	8,970
Controlling interest net income		761		10,615		9,800		8,523
Non-controlling interest net income		40		554		499		447
Consolidated net income	US\$	801	Ps.	11,169	Ps.	10,299	Ps.	8,970
<b>Net controlling income (U.S. dollars and Mexican pesos):</b>								
Data per share	US\$	0.41	Ps.	5.69	Ps.	5.31	Ps.	4.62

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.95 per US\$ 1.00 solely for the convenience of the reader.



**Operations by Reportable Segment**

The following table sets forth certain financial information for each of our reportable segments for the years ended December 31, 2011, 2010 and 2009. See Note 25 to our consolidated financial statements for additional information by reporting segment.

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(2011, 2010 and 2009 in millions of Mexican pesos)</b>		
<b>Total revenues</b>			
Mexico and Central America <sup>(1)</sup>	Ps. 52,196	Ps. 45,213	Ps. 43,034
South America (excluding Venezuela) <sup>(2)</sup>			
	52,408	44,210	37,303
Venezuela	20,111	14,033	22,430
<b>Gross profit</b>			
Mexico and Central America <sup>(1)</sup>	Ps. 24,775	Ps. 22,035	Ps. 21,286
South America (excluding Venezuela) <sup>(2)</sup>			
		19,415	
	22,498		16,579
Venezuela	9,954	6,472	9,950
<b>Income from operations</b>			
Mexico and Central America <sup>(1)</sup>	Ps. 8,906	Ps. 7,714	Ps. 7,998
South America (excluding Venezuela) <sup>(2)</sup>			
	7,943	6,921	6,022
Venezuela	3,303	2,444	1,815

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes results of Grupo Tampico from October 2011 and Grupo CIMSA from December 2011.

(2) Includes Colombia, Brazil and Argentina.

**Results from Operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010****Consolidated Results from Operations**

**Total Revenues.** Consolidated total revenues increased 20.5% to Ps. 124,715 million in 2011, as compared to 2010, driven by double-digit total revenue growth in our South America division, including Venezuela, and the Mexico & Central America division, including the integration of Grupo Tampico and Grupo CIMSA into our Mexican operations during the fourth quarter of 2011. Excluding the integration of the newly merged territories into our

Mexican operations, total revenues grew approximately 19%. On a currency neutral basis and excluding the territories of Grupo Tampico and Grupo CIMSA in Mexico, total revenues increased approximately 16%.

Total sales volume increased 6.0% to 2,648.6 million unit cases in 2011, as compared to 2010. The integration of Grupo Tampico and Grupo CIMSA into our Mexico operations in the fourth quarter of 2011 accounted for 48.9 million unit cases, of which sparkling beverages represented 63.0%, water 5.2%, bulk water 27.4% and still beverages 4.4%. Excluding this non-comparable effect, total sales volumes grew 4.0% to 2,599.7 million unit cases. The sparkling beverage category organically grew 4.0%, mainly driven by the Coca-Cola brand, which accounted for approximately 80% of incremental volumes. The still beverage category grew 10.8%, mainly driven by the performance of the Jugos del Valle line of business in Mexico, Brazil and Venezuela, and the *Hi-C* orangeade and the *Cepita* juice brand in Argentina, representing close to 15% of incremental volumes. Our bottled water portfolio, including bulk water, grew 1.9%, and contributed the balance.

Consolidated average price per unit case incremented 13.8%, reaching Ps. 45.38 in 2011, as compared to Ps. 39.89 in 2010. In local currency, average price per unit case increased in all of our territories mainly driven by price increases implemented during the year and higher volumes of sparkling beverages, which carry higher average price per unit case.

**Gross Profit.** Our gross profit increased 19.4% to Ps. 57,227 million in 2011, as compared to 2010. Cost of goods sold increased 21.5% mainly as a result of higher sweetener and PET costs across our operations, which were partially offset by the appreciation of the average exchange rate of the Brazilian real, the Colombian peso and the Mexican peso as applied to our U.S. dollar-denominated raw material costs. Gross margin reached 45.9% in 2011 as compared to 46.3% in 2010.

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

**Operating Expenses.** Consolidated operating expenses as a percentage of total revenues remained flat at 29.7% in 2011 as compared to 29.8% in 2010. Operating expenses in absolute terms increased 20.2%, mainly as a result of higher labor costs in Venezuela, higher labor and freight costs in Argentina and continued marketing investments designed to reinforce our presence in the marketplace, widen our cooler coverage and broaden our availability of returnable-base packaging.

**Income from Operations.** Our consolidated operating income increased 18.0% to Ps. 20,152 million in 2011, as compared to 2010. Our South America division, including Venezuela, accounted for more than 60% of this growth. Our operating margin was 16.2% in 2011, as compared to 16.5% in 2010.

**Other Expenses, Net.** During 2011, we recorded Ps. 2,326 million in other expenses, net. These expenses were mainly composed of employee profit sharing, the loss on sale of fixed assets and the write-off of certain non-productive assets.

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

Comprehensive financing results in 2011 recorded an expense of Ps. 1,058 million, as compared to an expense of Ps. 1,228 million in 2010, mainly due to lower net interest cost.

**Income Taxes.** Income taxes increased to Ps. 5,599 million in 2011 from Ps. 4,260 million in 2010. During 2011, taxes as a percentage of income before taxes were 33.4% as compared to 29.3% in the previous year.

**Controlling Interest Net Income.** Our consolidated net controlling interest income increased 8.3% to Ps. 10,615 million in 2011 as compared to 2010. Earnings per share (EPS) in 2011 were Ps. 5.69 (Ps. 56.91 per ADS) computed on the basis of 1,865.3 million shares outstanding as of December 31, 2011 (each ADS represents 10 local shares).



## Consolidated Results from Operations by Reporting Segment

### Mexico and Central America

**Total Revenues.** Total revenues from our Mexico and Central America division increased 15.4% to Ps. 52,196 million in 2011, as compared to 2010; such growth was supported by the integration of Grupo Tampico and Grupo CIMSA in our Mexican operations during the fourth quarter of 2011. Higher volumes, including the recently integrated franchises into our Mexican operations, accounted for approximately 65% of incremental revenues during the year, and increased average price per unit case represented the balance. Average price per unit case reached Ps. 34.39, an increase of 5.2%, as compared to 2010, mainly reflecting selective price increases across our product portfolio implemented in Mexico and Central America over the year. Excluding the integration of Grupo Tampico and Grupo CIMSA in Mexico, total revenues grew approximately 12%. On a currency neutral basis and excluding the recently integrated territories into our Mexican territories, total revenues increased approximately 11%.

Total sales volume increased 9.5% to 1,510.8 million unit cases in 2011, as compared to 2010. Excluding the integration of Grupo Tampico and Grupo CIMSA in Mexico, volumes grew 6.0% to 1,461.8 million unit cases. Sparkling beverage volume organically increased 6.0%, driven by a 7% growth of the *Coca-Cola* brand and a 3% increase in flavored sparkling beverages, accounting for 75% of incremental volumes. Our bottled water portfolio, including bulk water, grew 5.6%, representing more than 15% of incremental volumes. Still beverages grew 7.5% mainly driven by the Jugos del Valle line of products, *Nestea* and *PowerAde*, contributing the balance.

**Operating Income.** Gross profit increased 12.4% to Ps. 24,775 million in 2011, as compared to 2010. Cost of goods sold increased 18.3% mainly as a result of higher sweetener and PET costs, which were partially offset by the appreciation of the average exchange rate of the Mexican peso as applied to our U.S. dollar-denominated raw material costs. Gross margin decreased from 48.7% in 2010 to 47.5% in 2011.

Operating income increased 15.5% to 8,906 million in 2011, compared to Ps. 7,714 million in 2010. Operating expenses grew 10.8%. Operating leverage achieved through higher revenues, in combination with controlled operating expenses in Mexico, resulted in an operating margin of 17.1% in 2011, the same margin achieved in 2010.

### South America (excluding Venezuela)

**Total Revenues.** Total revenues were Ps. 52,408 million in 2011, an increase of 18.5% as compared to 2010 as a result of double-digit total revenue growth in every territory. Excluding beer, which accounted for Ps. 3,868 million

during the year, revenues increased 18.6% to Ps. 48,540 million. Excluding beer, higher average prices per unit case across our operations accounted for close to 75% of incremental revenues and volume growth in every territory contributed the balance. On a currency neutral basis, total revenues increased approximately 15%.

Total sales volume in our South America division, excluding Venezuela, increased 4.3% to 948.1 million unit cases in 2011 as compared to 2010, as a result of growth in every operation. Our sparkling beverage portfolio grew 4.7%, driven by the strong performance of the *Coca-Cola* brand in Argentina and Colombia, which grew 11% and 9%, respectively and a 6% growth in flavored sparkling beverages. The still beverage category grew 16.4%, mainly driven by the Jugos del Valle line of business and the *Matte Leao* brand in Brazil and the *Cepita* juice brand and *Hi-C* orangeade in Argentina. These increases compensated for a 4.8% decline in the bottled water portfolio, including bulk water.

**Operating Income.** Gross profit reached Ps. 22,498 million, an increase of 15.9% in 2011, as compared to 2010. Cost of goods sold increased 20.6% mainly driven by higher year-over-year sweetener and PET costs across these territories, which were partially compensated by the appreciation of the average exchange rate of the Brazilian real and the Colombian peso as applied to our U.S. dollar-denominated raw material costs. Gross profit reached 42.9% in 2011, as compared to 43.9% in 2010.

Our operating income increased 14.8% to Ps. 7,943 million in 2011, compared to 2010. Operating expenses increased 16.5%, mainly as a result of higher labor and freight costs in Argentina in combination with normalized marketing expenses in Colombia. Our operating margin was 15.2% in 2011, a decline of 50 basis points as compared to the same period of 2010, due to gross margin pressures.

## Venezuela

**Total Revenues.** Total revenues in Venezuela reached Ps. 20,111 million in 2011, an increase of 43.3% as compared to 2010, due to increased average price per unit case. Average price per unit case was Ps. 105.84 in 2011, representing an increase of 59.4% as compared to 2010. In local currency, higher average price per unit case accounted for incremental revenues during the year. On a currency neutral basis, our revenues in Venezuela increased by approximately 41%.

Total sales volume decreased 10.0% to 189.8 million unit cases in 2011, as compared to 211.0 million unit cases in 2010. The sales volume in the sparkling beverage category declined 9.6%, while the bottled water category, including bulk water, declined 24.8%. Sales volume in the still beverage category increased 14.9%, due to the introduction of the *del Valle Fresh* orangeade and *Kapo*, and partially compensated for the volume decline.

**Operating Income.** Gross profit was Ps. 9,954 million in 2011, an increase of 53.8% compared to 2010. Cost of goods sold increased 34.3% mainly due to higher sweetener costs. Gross margin expanded 340 basis points to 49.5% in 2011, as compared to 46.1% in 2010.

Operating income increased 35.1% to Ps. 3,303 million in 2011 compared to the previous year. Operating expenses incremented 65.1%, principally due to higher labor costs and increased marketing and administrative expenses. Operating margin was 16.4% in 2011, as compared to 17.4% in 2010.

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

### Consolidated Results from Operations

**Total Revenues.** Consolidated total revenues increased 0.7% to Ps. 103,456 million in 2010, as compared to 2009, as a result of revenue growth in every operation except Venezuela, a country in which we experienced a revenue decline as a consequence of the devaluation of the Venezuelan bolivar. On a currency neutral basis and excluding the acquisition of Brisa in Colombia, our consolidated revenues for 2010 increased by approximately 15%.

Total sales volume increased 2.9% to 2,499.5 million unit cases in 2010, as compared to 2009. The sparkling beverage category, driven by a 4% growth of the *Coca-Cola* brand, grew 2.6% and contributed more than 70% of incremental volumes. The still beverage category, mainly driven by the performance of the *Jugos del Valle* line of

business across our territories, grew 11.1% and accounted for approximately 20% of incremental volumes. The consolidation of the *Brisa* water brand in Colombia drove a 1.6% growth in our bottled water portfolio and represented the balance. Excluding the non-comparable effect of *Brisa*, total sales volume increased 1.6% to reach 2,479.6 million unit cases.

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

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

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

***Income from Operations.*** Our consolidated operating income increased 7.9% to Ps. 17,079 million in 2010, as compared to 2009. Our South America division, including Venezuela, accounted for 19.2% incremental operating income in 2010. These increases compensated for an operating income decline in our Mexico and Central America division. Our operating margin was 16.5% in 2010, an expansion of 110 basis points as compared to 2009.

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

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

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

***Controlling Interest Net Income.*** Consolidated controlling interest net income increased 15.0% to Ps. 9,800 million in 2010 as compared to 2009, mainly as a result of higher operating income. Earnings per share (EPS) in 2010 was Ps. 5.31 (Ps. 53.07 per ADS) computed on the basis of 1,846.5 million shares outstanding as of December 31, 2010 (each ADS represents 10 local shares).

## **Consolidated Results from Operations by Reporting Segment**

### **Mexico and Central America**

***Total Revenues.*** Total revenues from our Mexico and Central America division increased 5.1% to Ps. 45,213 million in 2010, as compared to 2009. Higher average price per unit case accounted for more than 75% of the incremental revenues during this period. Average price per unit case increased to Ps. 32.69, a 3.9% increase, as compared to 2009, mainly reflecting selective price increases implemented during the year, higher volumes from the *Coca-Cola* brand, which carries higher average prices per unit case and, to a lesser extent, higher average prices per unit case from our growing still beverage portfolio.

Total sales volume increased 1.2% to 1,379.3 million unit cases in 2010, as compared to 1,363.0 million unit cases in 2009, resulting from (i) incremental volume of the *Coca-Cola* brand, that grew more than 2%, (ii) an increase of 5.6% in the still beverage category, mainly driven by the *Jugos del Valle* product line and *Nestea*, our ready-to-drink tea line and (iii) a 1.8% increase in the bottled water portfolio, excluding bulk water. These increases more than compensated for a 4.2% decline in the bulk water category.

**Operating Income.** Gross profit increased 3.5% to Ps. 22,035 million in 2010, as compared to 2009. Cost of goods sold increased 6.6% mainly as a result of higher sweetener and PET costs, which were partially offset by the appreciation of the Mexican peso as applied to our U.S. dollar-denominated raw material costs. Gross margin decreased from 49.5% in 2009 to 48.7% in 2010.

Operating income decreased 3.6% to Ps. 7,714 million in 2010, compared to Ps. 7,998 million in 2009. Operating expenses grew 7.8% mainly due to continued marketing investment to support our execution in the marketplace, widen our cooler coverage and broaden our returnable base availability. Our operating margin was 17.1% in 2010, a decrease of 150 basis points as compared to 2009.

#### **South America (excluding Venezuela)**

**Total Revenues.** Total revenues increased 18.5% to Ps. 44,210 million in 2010, as compared to 2009. Excluding beer sales, which accounted for Ps. 3,285 million during 2010, total revenues increased 18.6% to Ps. 40,925 million compared to 2009. Higher average price per unit case accounted for approximately 55% of incremental revenues, excluding beer. On a currency neutral basis and excluding the integration of Brisa in Colombia, revenues for 2010 increased by approximately 16%.

Sales volume, excluding beer, increased 8.2% to 909.2 million unit cases in 2010, as compared to 2009. The sparkling beverage category grew 6.2%, mainly driven by a 7% increase in the *Coca-Cola* brand, accounting for more than 65% of incremental volumes. The bottled water category grew 20.4%, mainly driven by to the integration of Brisa in Colombia and volumes of *Aquarius*, our flavored water brand in Argentina, contributing more than 25% of incremental volumes. The still beverage category grew 23.5%, mainly driven by the *Jugos del Valle* line of products in Brazil and Colombia, representing the balance.

**Operating Income.** In 2010, gross profit increased 17.1% to Ps. 19,415 million, as compared to the previous year. Cost of goods sold increased 19.6%, mainly due to higher cost of sweetener in the division and higher cost of PET in Argentina, which was partially offset by the appreciation of the average exchange rate of the Brazilian real and the Colombian peso as applied to our U.S. dollar-denominated raw material cost. Gross margin reached 43.9% in 2010 as compared to 44.4% in 2009.

Operating income increased 14.9% to Ps. 6,921 million in 2010, as compared to Ps. 6,022 million in 2009. Operating expenses grew 18.3% mainly due to higher labor and freight costs in Argentina and the integration of the *Brisa* portfolio and the continued expansion of the *Jugos del Valle* line of business in Colombia. Operating margin was 15.7% in 2010, a decrease of 40 basis points as compared to 2009.

## Venezuela

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

Total sales volume decreased 6.3% to 211.0 million unit cases in 2010, as compared to 225.2 million unit cases in 2009. The sales volume in the sparkling beverages and still beverages categories declined 6.8% and 2.7%, respectively, while sales volume in the bottled water category, including bulk water, remained flat.

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

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

## **Liquidity and Capital Resources**

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

Our total indebtedness was Ps. 22,574 million as of December 31, 2011, as compared to Ps. 17,351 million as of December 31, 2010. Short-term debt and long-term debt were Ps. 5,540 million and Ps. 17,034 million, respectively, as of December 31, 2011, as compared to Ps. 1,840 million and Ps. 15,511 million, respectively, as of December 31, 2010. Total debt increased Ps. 5,223 million in 2011, compared to year end 2010. In April 2011, we issued two Mexican peso-denominated bonds, in 5-year floating rate and 10-year fixed rate tranches of Ps. 2,500 million each, priced at THIE + 0.13% and 8.27%, respectively. Proceeds from such issuances were used for general corporate purposes, as well as to pay down existing debt. Net debt increased Ps. 5,096 million in 2011 mainly as a result of the assumption of debt resulting from recent mergers and dividend payments made during the year. As of December 31, 2011, cash and cash equivalents, were Ps. 12,331 million, as compared to Ps. 12,534 million as of December 31, 2010. As of December 31, 2011, our cash and cash equivalents were comprised of 47.0% U.S. dollars, 23.2% Mexican pesos, 13.4% Brazilian reais, 13.1% Venezuelan bolivars, 1.6% Colombian pesos and 1.0% Argentinean pesos. As of March 31, 2012, our cash and cash equivalents balance was Ps.10,993 million, including US\$ 296 million denominated in U.S. dollars. These funds, in addition to the cash generated by our operations, are sufficient to meet our operating requirements.



In January 2010, the Venezuelan government announced a devaluation of its official exchange rate and the establishment of a multiple exchange rate system which was set at 2.60 bolivars to US\$ 1.00 for high priority categories and 4.30 bolivars to US\$ 1.00 for non-priority categories, and which recognized the existence of other exchange rates in which the government will intervene. In December 2010, the Venezuelan government announced its decision to implement a new singular fixed exchange rate of 4.30 bolivars to US\$ 1.00, which resulted in a devaluation of the bolivar against the U.S. dollar. For further information, please see Note 3 to our consolidated financial statements. Future changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries in which we have operations could have an adverse effect on our financial position and results from operations.

As part of our financing policy, we expect to continue to finance our liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which we operate, it may not be beneficial or, as in the case of exchange controls in Venezuela, practicable for us to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls like those in Venezuela may also increase the real price of remitting cash from operations to fund debt requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, we may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In addition, our liquidity in Venezuela could be affected by changes in the rules applicable to exchange rates as well as other regulations, such as exchange controls. In the future we may finance our working capital and capital expenditure needs with short-term or other borrowings.

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

**Sources and Uses of Cash.** The following table summarizes the sources and uses of cash for the years in the periods ended December 31, 2011, 2010 and 2009, from our consolidated statements of cash flows:

**Principal Sources and Uses of Cash**  
**Years ended December 31, 2011, 2010 and 2009**  
**(in millions of Mexican pesos)**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net cash flows from operating activities	Ps. 15,307	Ps. 14,350	Ps. 16,663
Net cash flows used in investing activities <sup>(1)</sup>	(14,140)	(6,845)	(8,900)
Net cash flows used in financing activities <sup>(2)</sup>	(2,206)	(2,011)	(6,029)
Dividends declared and paid	(4,366)	(2,612)	(1,344)

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



**Contractual Obligations**

The table below sets forth our contractual obligations as of December 31, 2011:

	<b>Maturity</b> <b>(in millions of Mexican pesos)</b>					<b>Total</b>
	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4 –5 years</b>	<b>In excess of 5 years</b>		
<b>Debt<sup>(1)</sup></b>						
Mexican pesos	Ps. 3,067	Ps. 4,483	Ps. 2,500	Ps. 2,500	Ps. 2,500	12,550
U.S. dollars	42	209	—	6,990	—	7,241
Brazilian reais	5	31	20	26	—	82
Colombian pesos	1,230	—	—	—	—	1,230
Argentine pesos	968	81	—	—	—	1,049
<b>Capital Leases</b>						
Mexican peso	18	—	—	—	—	18
Brazilian reais	4	13	—	—	—	17
Colombian peso	205	181	—	—	—	386
<b>Interest Payments on Debt<sup>(2)</sup></b>						
Mexican pesos	619	1,540	448	675	—	3,282
U.S. dollars	324	970	647	687	—	2,628
Brazilian reais	4	9	4	1	—	18
Colombian pesos	61	6	—	—	—	67
Argentine pesos	86	2	—	—	—	88
<b>Interest Rate Swaps<sup>(3)</sup></b>						
Mexican pesos float to fixed	(12)	(270)	—	—	—	(282)
<b>Cross Currency Swaps<sup>(4)</sup></b>						
Mexican pesos to U.S. dollars <sup>(5)</sup>	(130)	—	—	—	—	(130)
<b>Forwards</b>						
U.S. dollars to Brazilian reais <sup>(6)</sup>	18	—	—	—	—	18
U.S. dollars to Colombian pesos <sup>(7)</sup>	15	—	—	—	—	15
<b>Collar Options<sup>(8)</sup></b>						
U.S. dollars to Mexican pesos	300	—	—	—	—	300
<b>Operating Leases</b>						
Mexican pesos	339	636	165	690	—	1,830
U.S. dollars	33	58	—	—	—	91
<b>Commodity Hedge Contracts</b>						
Sugar <sup>(9)</sup>	(14)	(5)	—	—	—	(19)
<b>Expected Benefits to be Paid for Pension and Retirement Plans and Seniority Premium</b>	204	345	106	711	—	1,366
<b>Other Long-Term Liabilities<sup>(10)</sup></b>	—	—	—	—	—	—

- (1) Excludes the effect of cross currency swaps.
- (2) Interest was calculated using debt as of and nominal interest rate amounts in effect on December 31, 2011. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 13.98 per U.S. dollar, the exchange rate reported by *Banco de México* quoted to us by dealers for the settlement of obligations in foreign currencies on December 30, 2011.
- (3) Reflects the market value as of December 31, 2011 of interest rates swaps that are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2011.
- (4) Includes cross currency swap contracts held as of December 31, 2011. U.S. dollar denominated amounts were translated to Mexican pesos as described in footnote (2) above. The amounts shown in the table are fair value figures as of December 30, 2011.
- (5) Cross currency swaps used to convert Mexican peso denominated floating rate debt into U.S. dollar denominated floating rate debt with a notional amount of Ps. 357 million with maturity date as of March 2, 2012. These cross-currency swaps are not considered hedges for accounting purposes.
- (6) Reflects the market value as of December 31, 2011 of forward derivative instruments used to hedge against fluctuation in the Brazilian reais. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2011.
- (7) Reflects the market value as of December 31, 2011 of forward derivative instruments used to hedge against fluctuation in the Colombian peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2011.
- (8) Reflects the market value as of December 31, 2011 of FX collar options used to hedge against fluctuation in the Mexican peso. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2011.
- (9) Reflects the market value as of December 31, 2011 of futures contracts used to hedge sugar cost. These instruments are considered hedges for accounting purposes. The amounts shown in the table are fair value figures as of December 31, 2011.
- (10) Other long-term liabilities reflects liabilities whose maturity dates are undefined and depends on a series of circumstances out of our control, therefore these liabilities have been considered to have a maturity of more than five years.

**Debt Structure**

The following chart sets forth the debt breakdown of our company and its subsidiaries by currency and interest rate type as of December 31, 2011:

<b>Currency</b>	<b>Percentage of Total Debt<sup>(1)</sup></b>	<b>Average Nominal Rate<sup>(2)</sup></b>	<b>Average Adjusted Rate<sup>(1)(3)</sup></b>
Mexican pesos	53.8%	5.5%	6.8%
U.S. dollars	34.0%	4.5%	3.7%
Colombian pesos	7.1%	5.1%	5.1%
Brazilian reais	0.4%	4.5%	4.5%
Argentine pesos	4.6%	15.7%	15.7%
Venezuelan bolivar	0.0%	12.4%	12.4%

- (1) Includes the effect of derivative contracts held by us as of December 31, 2011, including cross currency swaps from Mexican pesos to U.S. dollars and U.S. dollar.
- (2) Annual weighted average interest rate per currency as of December 31, 2011.
- (3) Annual weighted average interest rate per currency as of December 31, 2011 after giving effect to interest rate swaps and cross currency swaps. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk.”

### Summary of Significant Debt Instruments

The following is a brief summary of our significant long-term indebtedness with restrictive covenants outstanding as of April 20, 2012:

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

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

- (1) TIEE means the *Tasa de Interés Interbancaria de Equilibrio* (the Equilibrium Interbank Interest Rate).
- (2) Paid in full at maturity.

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

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

**Bank Loans.** As of April 20, 2012, we had a number of loans with individual banks in Mexican pesos, U.S. dollars, Colombian pesos, Brazilian reais, and Argentine pesos, with an aggregate principal amount of Ps. 7,163 million. The bank loans denominated in Mexican pesos and U.S. dollars guaranteed by Propimex contain restrictions on liens, fundamental changes such as mergers and sale of certain assets. In addition, we are required to comply with a maximum net leverage ratio. Finally, some of our bank loans include a mandatory prepayment clause in which the lender has the option to require us to prepay such loans upon a change of control.

During April 2012, we executed a new loan agreement, for a total aggregate amount of US\$75 million, with The Bank of Tokyo Mitsubishi UFJ LTD, New York Branch. This loan agreement is substantially on the same terms as our bank loans mentioned in the previous paragraph, is guaranteed by Propimex S. de R.L. de C.V. (formerly Propimex S.A. de C.V.), and has a 2 year term.

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

### Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

### Contingencies

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

We recognize a liability for a loss contingency when it is probable that certain effects related to past events would materialize and can be reasonably quantified. The following table presents in millions of Mexican pesos the nature and amount of the recorded loss contingencies as of December 31, 2011:

	<b>Long-Term</b>
	Ps.
Tax, primarily indirect taxes	925
Legal	231
Labor	1,128
<b>Total</b>	<b>Ps. 2,284</b>

We do not recognize an asset as a contingency gain until the gain is realized. When the risk of loss is deemed to be other than remote, but less than probable, according to a legal assessment, its financial impact is disclosed as loss contingencies in the notes of the consolidated financial statements. The estimated amount of the damages sought in these proceedings is Ps. 6,781 million.



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

As is customary in Brazil, we have been required by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 2,418 million and Ps. 2,292 million as of December 31, 2011 and 2010, respectively, by pledging fixed assets, or providing bank guarantees.

In connection with certain past business combinations, we have been indemnified by the sellers for certain contingencies. We have agreed to comparable indemnifications provisions in our agreements in connection with our recent mergers with Grupo Tampico and Grupo CIMSA. See “**Item 4. Information on the Company—The Company—Recent mergers and acquisitions.**”

### Capital Expenditures

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

	Year Ended December 31,		
	2011	2010	2009
	(millions of Mexican pesos)		
Property, plant and equipment, deferred charges and other investments	Ps. 7,826	Ps. 7,478	Ps. 6,282

	Year Ended December 31,		
	2011	2010	2009
	(millions of Mexican pesos)		
Mexico and Central America <sup>(1)</sup>	Ps. 4,117	Ps. 3,427	Ps. 3,086
South America (excluding Venezuela) <sup>(2)</sup>	3,067	3,547	1,948
Venezuela	642	504	1,248
<b>Total</b>	<b>Ps. 7,826</b>	<b>Ps. 7,478</b>	<b>Ps. 6,282</b>

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

In 2011, we focused our capital expenditures on investments in (1) increasing production capacity, (2) placing coolers with retailers, (3) returnable bottles and cases, (4) improving the efficiency of our distribution infrastructure and (5) information technology. Through these measures, we strive to improve our profit margins and overall profitability.

We have budgeted approximately US\$700 million for our capital expenditures in 2012. Our capital expenditures in 2012 are primarily intended for:

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

We estimate that of our projected capital expenditures for 2012, approximately 35.0% will be for our Mexican territories and the remaining will be for our non-Mexican territories. We believe that internally generated funds will be sufficient to meet our budgeted capital expenditure for 2012. Our capital expenditure plan for 2012 may change based on market and other conditions and our results from operations and financial resources.

In December 2011, we began the construction of a production plant in Minas Gerais, Brazil, which will require an investment of 250 million Brazilian reais (equivalent to approximately US\$ 140 million). We expect that the construction will generate 800 direct and indirect jobs. It is anticipated that the new plant will be completed within 18 months as of December 31, 2011 and begin operations in June 2013. The plant will be located on a parcel of land 300,000 square meters in size, and it is expected that by 2015 the annual production capacity will be approximately 2.1 billion liters of sparkling beverages, representing an increase of approximately 47% as compared to the current installed capacity of our plant in Belo Horizonte, Brazil. The new plant will produce all of our existing brands and presentations of *Coca-Cola* products.

Historically, The Coca-Cola Company has contributed resources in addition to our own capital expenditures. We generally utilize these contributions for initiatives that promote volume growth of *Coca-Cola* trademark beverages, including the placement of coolers with retailers. Such payments may result in a reduction in our selling expenses line. Contributions by The Coca-Cola Company are made on a discretionary basis. Although we believe that The Coca-Cola Company will make additional contributions in the future to assist our capital expenditure program based on past practice and the benefits to The Coca-Cola Company as owner of the *Coca-Cola* brands from investments that support the strength of the brands in our territories, we can give no assurance that any such contributions will be made.

### Hedging Activities

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

The following table provides a summary of the fair value of derivative instruments as of December 31, 2011. The fair market value is estimated using market prices that would apply to terminate the contracts at the end of the period and are confirmed by external sources, which are also our counterparties to the relevant contracts.

	Fair Value At December 31, 2011				Total fair value
	Maturity less than 1 year	Maturity 1 – 3 years	Maturity 4 – 5 years	Maturity in excess of 5 years	
(millions of Mexican pesos)					
<b>Interest Rate Swaps</b>					
Mexican pesos float to fixed	(12)	(270)	—	—	(282)
<b>Cross Currency Swaps</b>					
Mexican pesos to U.S. Dollars	(130)	—	—	—	(130)
<b>Forwards</b>					
U.S. dollars to Brazilian reais	18	—	—	—	18
U.S. dollars to Colombian pesos	15	—	—	—	15
<b>Commodity Hedge Contracts</b>					
Sugar	(14)	(5)	—	—	(19)

**U.S. GAAP Reconciliation**

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

- reversal of inflationary adjustments in countries considered inflationary under Mexican FRS, but not considered hyper-inflationary under U.S. GAAP;
- certain balance sheet and income statement classification differences;
- deferred promotional expenses;
- intangible assets;
- restatement of imported equipment;
- capitalization of comprehensive financing result;
- disclosures related to the fair value of financial instruments;
- accounting and disclosures for deferred income tax, employee profit sharing and uncertain tax positions;
- employee benefits;
- non-controlling interest acquisition; and
- presentation aspects of statement of cash flows.

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

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

Under U.S. GAAP, we had consolidated net income of Ps. 11,015 million in 2011, Ps. 10,105 million in 2010, and Ps. 8,853 million in 2009. Consolidated net income as reconciled to U.S. GAAP was lower than consolidated net income as reported under Mexican FRS by Ps. 154 million in 2011, Ps. 194 million in 2010, and Ps. 117 million in 2009.

Equity under U.S. GAAP was Ps. 99,794 million, Ps. 73,468 million, and Ps. 66,037 million in 2011, 2010, and 2009, respectively. Compared to shareholders' equity under Mexican FRS, equity under U.S. GAAP was lower by Ps. 986 million, Ps. 413 million, and Ps. 2,435 million in 2011, 2010 and 2009, respectively.

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

### **Directors**

Management of our business is vested in our board of directors and in our chief executive officer. Our bylaws provide that our board of directors will consist of no more than 21 directors and their respective alternates, elected at the annual ordinary shareholders meeting for renewable terms of one year. Our board of directors currently consists of 19 directors and 18 alternate directors: 13 directors and their respective alternate directors are elected by holders of the Series A shares voting as a class; five directors and their respective alternate directors are elected by holders of the Series D shares voting as a class; and up to three directors and their respective alternate directors are elected by

holders of the Series L shares voting as a class. Directors may only be elected by a majority of shareholders of the appropriate series, voting as a class.

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

Our bylaws, as recently amended, provide that when Series B shares are issued, which has yet occurred, the shareholders of such Series B issued and paid shares that individually or as a group, hold at least 10% of the issued and paid shares of the capital stock of the Company shall have the right to designate and revoke one director and the corresponding alternate, pursuant to Article 50 of the Mexican Securities Law.

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

At our ordinary shareholders meeting held on March 20, 2012, the following directors were appointed: 11 directors and their respective alternates were appointed by holders of Series A shares, five directors and their respective alternates were appointed by holders of Series D shares and three directors and their respective alternates were appointed by holders of Series L shares. We currently have appointed 19 of the maximum 21 directors that can be appointed pursuant to our bylaws.

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



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

**Series A Directors**

<p>José Antonio Fernández Carbajal <i>Chairman</i></p>	<p>Born: First elected: Term expires: Principal occupation: Other directorships:</p>	<p>February 1954 1993, as director; 2001 as chairman 2013 Chief Executive Officer, FEMSA. Chairman of the board of FEMSA and Fundación FEMSA A.C., Vice-Chairman of the supervisory board of Heineken N.V. and member of the board of Heineken Holding N.V., Chairman of the board of Instituto Tecnológico y de Estudios Superiores de Monterrey, (ITESM), and member of the boards of Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Televisa, S.A.B. (Televisa) and Controladora Vuela Compañía de Aviación, S.A. de C.V. (Volaris), US Mexico Foundation and Co-chairman of the Advisory Board of Woodrow Wilson Center, Mexico Institute.</p>
	<p>Business experience:</p>	<p>Joined FEMSA’s strategic planning department in 1988, held managerial positions at FEMSA Cerveza’s commercial division and OXXO and was appointed Deputy Chief Executive Officer of FEMSA in 1991 and Chief Executive Officer.</p>
	<p>Education:</p>	<p>Holds a degree in Industrial Engineering and a Masters in Business Administration (MBA) from ITESM.</p>
<p>Alfonso Garza Garza<sup>(1)</sup> <i>Director</i></p>	<p>Alternate director: Born: First elected: Term expires: Principal occupation: Other directorships:</p>	<p>Alfredo Livas Cantú July 1962 1996 2013 Officer of Human Resources, Procurement and Information Technology, FEMSA. Member of the boards of directors of FEMSA, ITESM and Nutec, S.A. de C.V., vice chairman of the communications council of COPARMEX and chairman of COPARMEX Nuevo León</p>
	<p>Business experience:</p>	<p>Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Empaques, S.A. de C.V. or FEMSA</p>

	Empaques and FEMSA Cerveza, and was Chief Executive Officer of FEMSA Empaques.
Education:	Holds a degree in Industrial Engineering from ITESM and an MBA from Instituto Panamericano de Alta Dirección de Empresa (IPADE).
Alternate director:	Bárbara Garza Lagüera Gonda <sup>(2)</sup>

**Series A Directors**

<p>José Luis Cutrale <i>Director</i></p>	<p>Born: First elected: Term expires: Principal occupation:  Other directorships:  Business experience:</p>	<p>September 1946 2004 2013 Chief Executive Officer of Sucocítrico Cutrale. Member of the boards of directors of Cutrale North America, Cutrale Citrus Juice, and Citrus Products. Founding partner of Sucocitrico Cutrale and member of ABECITRUS (the Brazilian Association of Citrus Exporters) and CDES (the Brazilian Government's Counsel for Economic and Social Development). Holds a degree in business management</p>
<p>Carlos Salazar Lomelín <i>Director</i></p>	<p>Education: Alternate director : Born: First elected: Term expires: Principal occupation: Other directorships:  Business experience:  Education:  Alternate director:</p>	<p>José Luis Cutrale, Jr. April 1951 2001 2013 Chief Executive Officer, Coca-Cola FEMSA. Member of the boards of BBVA Bancomer, AFORE Bancomer, S.A. de C.V., Seguros Bancomer, S.A. de C.V., member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Apex and the ITESM's EGADE Business School Has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions Holds a bachelor's degree in economics from ITESM, and performed postgraduate studies in business administration at ITESM and economic development in Italy Max Michel González</p>
<p>Ricardo Guajardo Touché <i>Director</i></p>	<p>Born: First elected: Term expires: Principal occupation:</p>	<p>May 1948 1993 2013</p>

	Chairman of the board of directors of Solfi, S.A.
Other directorships:	Member of the board of directors of Grupo Valores Monterrey, El Puerto de Liverpool. S.A. de C.V., Alfa, BBVA Bancomer and Grupo Aeroportuario del Sureste, S.A. de C.V. (ASUR), Bimbo, Bancomer, Grupo Coppel.
Business experience:	Has held senior executive positions in FEMSA, Grupo AXA, S.A. de C.V. (Grupo AXA) and Valores de Monterrey.
Education:	Holds degrees in electrical engineering from ITESM and the University of Wisconsin and a master's degree from the University of California at Berkeley
Alternate director:	Eduardo Padilla Silva

**Series A Directors**

<p>Mariana Garza Lagüera Gonda<sup>(2)</sup> <i>Director</i></p>	<p>Born: First elected: Term expires: Business experience: Other directorships:</p>	<p>April 1970 2001 2013 Private investor Member of the boards of directors of FEMSA, Hospital San José Tec de Monterrey and Museo de Historia Mexicana</p>
	<p>Education:</p>	<p>Holds a business administration degree in Industrial Engineering from ITESM and a Master of International Management from the Thunderbird American Graduate School of International Management</p>
<p>Federico Reyes García <i>Director</i></p>	<p>Alternate director: Born: First elected: Term expires: Principal occupation: Business experience:</p>	<p>Paulina Garza Lagüera Gonda<sup>(2)</sup> September 1945 1992 2013 Corporate Development Officer of FEMSA. Served as Vice President of Finance and Corporate Development of FEMSA, Director of Corporate Staff at Grupo AXA, a major manufacturer of electrical equipment . Has extensive experience in the insurance sector. Chairman of the board of directors of Valores de Monterrey.</p>
	<p>Other directorships:</p>	<p>Member of the board of directors of Optima Energia.</p>
	<p>Education:</p>	<p>Holds a degree in Business and Finance from ITESM.</p>
<p>Javier Gerardo Astaburuaga Sanjines <i>Director</i></p>	<p>Alternate director: Born: First elected: Term expires: Principal occupation: Business experience:</p>	<p>Alejandro Bailleres Gual July 1959 2006 2013 Chief Financial and Strategic Development Officer of FEMSA. Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer and for</p>

Other directorships:	two years was FEMSA Cerveza's Director of Sales for the north region of Mexico until 2003 in which he was appointed FEMSA Cerveza's Co-Chief Executive Officer. Member of the board of Heineken N.V. and supervisory board of Heineken N.V.
Education:	Holds a degree in CPA from ITESM.
Alternate director:	Francisco José Calderón Rojas

**Series A Directors**

<p>Alfonso González Migoya <i>Independent Director</i></p>	<p>Born: First elected: Term expires: Principal occupation:  Other directorships:  Business experience:  Education:</p>	<p>January 1945 2006 2013 Chairman of the board of directors and Chief Executive Officer of Grupo Industrial Saltillo, S.A.B. de C.V. Member of the board of directors of several Mexican companies, including the Bolsa Mexicana de Valores S.A.B. de C.V. among other financial institutes. Served from 1995 until 2005 as Corporate Director of Alfa. Holds a degree in Mechanical Engineering from ITESM and an MBA from the Stanford Graduate School of Business.</p>
<p>Daniel Servitje Montull <i>Independent Director</i></p>	<p>Alternate director: Born: First elected: Term expires: Principal occupation: Other directorships:  Business experience: Education:  Alternate director:</p>	<p>Ernesto Cruz Velázquez de León April 1959 1998 2013 Chief Executive Officer, Bimbo. Member of the boards of directors of Banco Nacional de Mexico and Bimbo. Served as Vice President of Bimbo. Holds a degree in Business from the Universidad Iberoamericana in Mexico and an MBA from the Stanford Graduate School of Business. Sergio Deschamps Ebergenyi</p>
<p>Enrique F. Senior Hernández <i>Director</i></p>	<p>Born: First elected: Term expires: Principal occupation: Other directorship:  Business experience:  Alternate director:</p>	<p>August 1943 2004 2013 Managing Director of Allen &amp; Company. Member of the boards of directors of Grupo Televisa S.A.B. de C.V, Cinemark USA, Inc. and Univision Communication Inc. Among other clients, has provided financial advisory services to FEMSA and Coca-Cola FEMSA. Herbert Allen III</p>





**Series D Directors**

Gary Fayard  
*Director*

Born: April 1952  
 First elected: 2003  
 Term expires: 2013  
 Principal occupation: Chief Financial Officer, The Coca-Cola Company.  
 Other directorships: Member of the boards of directors of Coca-Cola Enterprises and Coca-Cola Sabco.  
 Business experience: Senior Vice President of The Coca-Cola Company and former Partner of Ernst & Young.  
 Education: Holds a degree from the University of Alabama and is licensed as a Certified Public Accountant (CPA).

Irial Finan  
*Director*

Alternate director: Wendy Clark  
 Born: June 1957  
 First elected: 2004  
 Term expires: 2013  
 Principal occupation: President of Bottling Investments Group and Supply Chain, The Coca-Cola Company.  
 Other directorships: Member of the boards of directors of Coca-Cola Enterprises, Coca-Cola Amatil and Coca-Cola Hellenic.  
 Business experience: Chief Executive Officer of Coca-Cola Hellenic. Has experience in several Coca-Cola bottlers, mainly in Europe.  
 Education: Holds a Bachelor's degree from National University of Ireland.

Charles H. McTier  
*Independent Director*

Alternate director: Sunil Ghatnekar  
 Born: January 1939  
 First elected: 1998  
 Term expires: 2013  
 Principal occupation: Trustee, Robert W. Woodruff Foundation.  
 Other directorships: Member of the Board of Directors of AGL Resources.  
 Business experience: Served as a President of Robert W. Woodruff Foundation during the period 1971-2007 and on the board of directors of nine U.S. Coca-Cola bottling companies in the 1970s and 1980s.  
 Education: Holds a degree in Business Administration from Emory University.

Marie Quintero-Johnson  
*Director*

Born: October 1966

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Eva María Garza Lagüera Gonda<sup>(3)</sup>  
*Director*

First elected:	2012
Term expires:	2013
Principal occupation:	Merger and Acquisitions Vice-president of The Coca-Cola Company.
Other directorships:	Member of the Board of Directors of Zico.
Education:	MBA from Darden School
Alternate director:	Gloria Bowden
Born:	April 1958
First elected:	2011
Term expires:	2013
Principal occupation:	Private Investor
Other directorships:	Member of the boards of directors of FEMSA, ITESM and Premio Eugenio Garza Sada
Education:	Holds a degree in Communication Sciences from ITESM
Alternate director:	Kathy Waller

**Series L Directors**

**Robert Alan Fleishman Cahn**

*Independent Director*

**Born:** February 1962  
2012

**First elected:**  
**Term expires:** 2013

**Principal occupation:** Chief Executive Officer of Grupo Tampico, S.A. de C.V.

**Other directorships:** Member of the Board of Directors of Grupo Tampico S.A. de C.V. and its subsidiaries.

**Education:** Holds a degree in Business Administration

Holds a degree in Business Administration from The University of Texas and Post-bachelor degrees from Wharton School, University of Pennsylvania, Georgia Institute of Technology and Harvard University.

Herman H. Fleishman Cahn

**José Manuel Canal Hernando**

*Independent Director*

**Born:** February 1940

**First elected:** 2003

**Term expires:** 2013

**Principal occupation:** Private consultant.

**Other directorships:** Member of the board of directors of FEMSA, Banco Compartamos, S.A, Kuo, Consorcio Comex , Grupo Industrial Saltillo, S.A.B. de C.V., Grupo Acir, S.A. de C.V., Satelites Mexicanos, S.A. de C.V. and Grupo Diagnostico Proa, S.A. de C.V.

**Business experience:** Former managing partner at Ruiz, Urquiza y Cía, S.C. from 1981 to 1999, acted as our statutory examiner from 1984 to 2002, presided in the Committee of Surveillance of the Mexican Institute of Finance Executives, has participated in several commissions at the Mexican Institute of Public Accountants and has extensive experience in financial auditing for holding companies, banks and financial brokers.

**Education:** Holds a Public Accounting degree from UNAM.

**Francisco Zambrano Rodríguez**

*Independent Director*

**Alternate director:** Helmut Paul

**Born:** January 1953

**First elected:** 2003

**Term expires:** 2013

**Principal occupation:**

	Chief Executive Officer of Desarrollo de Fondos Inmobiliarios S.A. de C.V. (DFI) and Vice-president of Desarrollo Inmobiliarios y de Valores, S.A. de C.V. (DIV).
Other directorships:	Member of the boards of directors of several Mexican companies, including DFI, DIV and <a href="#">ITESM</a> .
Business experience:	Has extensive experience in investment banking and private investment services in México.
Education:	Holds a degree in Chemical Engineering from ITESM and an MBA from The University of Texas at Austin.
Alternate director:	Karl Frei Buechi

- (1) Cousin of Eva María Garza Lagüera Gonda, Paulina Garza Lagüera Gonda, Mariana Garza Lagüera Gonda and Bárbara Garza Lagüera Gonda.
- (2) Sister of Eva Maria Garza Lagüera Gonda and sister-in-law of José Antonio Fernández Carbajal.
- (3) Wife of José Antonio Fernández Carbajal.
- (4) Alexis Rovzar passed away on January 7, 2012.

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

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

Pursuant to a shareholders' agreement dated October 10, 2011, by and among Mr. Herman Harris Fleishman Cahn, Mr. Robert Alan Fleishman Cahn and FEMSA, Mr. Herman Harris Fleishman Cahn and Mr. Robert Alan Fleishman Cahn will be elected as director and alternate director, respectively, of the board of directors of the Company for six consecutive one-year terms, beginning in October 2011. In addition, on such date, Mr. Herman Harris Fleishman Cahn was appointed for an initial period of six months, after which Mr. Robert Alan Fleishman Cahn's one year term began.

## Executive Officers

The following are the principal executive officers of our company:

<p>Carlos Salazar Lomelín<sup>(1)</sup> <i>Chief Executive Officer</i></p>	<p>Born: Joined: Appointed to current position:</p>	<p>April 1951 2000 2000</p>
<p>Héctor Treviño Gutiérrez <i>Chief Financial and Administrative Officer</i></p>	<p>Born: Joined: Appointed to current position: Other business experience:</p>	<p>August 1956 1993 1993 At FEMSA, was in charge of International Financing, served as General Manager of Financial Planning, General Manager of Strategic Planning and General Manager of Business Development and headed the Corporate Development department.</p>
	<p>Education:</p>	<p>Holds a degree in Chemical and Administrative Engineering from ITESM and an MBA from the Wharton School of Business.</p>
<p>Rafael Alberto Suárez Olaguibel <i>Corporate Project Officer</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p>	<p>April 1960 1986 2011 Has held several director positions with us, including Commercial Planning and Strategic Development Officer and Chief Operating Officer in Mexico and Argentina. Also served as Distribution and Marketing Director for the Valley of Mexico and Corporate Planning Manager of FEMSA's sparkling beverages division.</p>
	<p>Other business experience:</p>	<p>Has worked in the Administrative, Distribution and Marketing departments of The Coca-Cola Export Company.</p>
	<p>Education:</p>	<p>Holds a degree in Economics from ITESM and an MBA-ONE from ITESM and the partner schools from each continent.</p>
<p>Alejandro Duncan Ancira <i>Technical Officer</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p>	<p>May 1957 1995 2002 Infrastructure Planning Director of Mexico.</p>
	<p>Other business experience:</p>	

Education:

Has undertaken responsibilities in different production, logistics, engineering, project planning and manufacturing departments of FEMSA and was a Plant Manager in central Mexico and Manufacturing Director in Buenos Aires.

Holds a degree in Mechanical Engineering from ITESM and an MBA from the Universidad de Monterrey.

<p>Eulalio Cerda Delgadillo <i>Human Resources Officer</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p> <p>Other business experience:</p> <p>Education:</p>	<p>July 1958 1996 2001 Manager, positions in several departments, including maintenance, projects, packaging and human resources. At FEMSA Cerveza, served as New Projects Executive and worked in several departments including marketing, maintenance, packaging, bottling, human resources, technical development and projects. Holds a degree in Mechanical Engineering from ITESM.</p>
<p>John Anthony Santa María Otazúa <i>Chief Operating Officer – South America</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p> <p>Other business experience:</p> <p>Education:</p>	<p>August 1957 1995 2011 Has served as Strategic Planning and Business Development Officer and Chief Operating Officer of Mexican operations. He has experience in several areas of the company, namely development of new products and mergers and acquisitions. Has experience with different bottler companies in Mexico in areas such as Strategic Planning and General Management. Holds a degree in Business Administration and an MBA with a major in Finance from Southern Methodist University.</p>
<p>Ernesto Silva Almaguer <i>Chief Operating Officer – Mexico / Central America</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p> <p>Other business experience:</p>	<p>March 1955 1996 2011 Has served as Chief Operating Officer in Buenos Aires and New Business Development and Information Technology Director. Has worked as General Director of packaging subsidiaries of FEMSA (Fábricas de Monterrey, S.A. de C.V. and Quimiproducos), served as Vice President of International Sales at FEMSA Empaques and Manager of</p>

Education:

FEMSA's Corporate Planning and held several positions at Alfa. Holds a degree in Mechanical and Administrative Engineering from Universidad Autónoma de Nuevo León and an MBA from The University of Texas at Austin.



<p>Juan Carlos Villacis Martínez <i>Strategic Planning Officer</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p> <p>Other business experience: Education:</p>	<p>April 1969 1999 2011 Has served as Strategic Planning Officer, Manager of several projects, Divisional Director of Finance and Administration. Associate at BAIN &amp; Co. Holds a degree in Economics from the Pontificia Universidad Catolica del Ecuador and a MBA in the Instituto Centroamericano de Administración de Empresas.</p>
<p>Hermilo Zuart Ruíz <i>Strategic Supply Officer</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p> <p>Other business experience: Education:</p>	<p>March 1949 1992 2010 Has served as former New Business Officer, Chief Operating Officer in the Latincentro division, Chief Operating Officer in the Valley of Mexico and Chief Operating Officer in the Southeast Mexico. Has undertaken several responsibilities in the manufacturing, commercialization, planning and administrative areas of FEMSA: Franquicias Officer, mainly in charge of Mundet products. Holds a degree in Public Accounting from UNAM and completed a graduate course in Business Management from IPADE.</p>
<p>Juan Ramón Felix Castañeda <i>New Businesses and Commercial Development Officer</i></p>	<p>Born: Joined: Appointed to current position: Business experience with us:</p> <p>Other business experience:</p>	<p>December 1961 1997 2010 Former Commercial Director in Mexico, Commercial Development Director in Brazil, Commercial Director for the Bajío division in Mexico, Commercial Director for the southeast in Mexico, Logistics Director and Sales Manager of the Valley of Mexico. Has worked as the Franchises Director at Cadbury Beverages, several positions in</p>

sales and operating areas in Cadbury  
Aguas Minerales and MFG Supervisor at  
Procter & Gamble.

Education:

Holds a degree in Industrial and Systems  
Engineering from ITESM and an MBA  
from The Garvin School of International  
Management/ITESM.

(1) See “—Directors.”

## **Compensation of Directors and Officers**

For the year ended December 31, 2011, the aggregate compensation of all of our executive officers paid or accrued for services in all capacities was approximately Ps. 200.7 million. The aggregate compensation amount includes approximately Ps. 107.5 million of cash bonus awards and bonuses paid to certain of our executive officers pursuant to our incentive plan for stock purchases. See “—EVA-Based Bonus Program.”

The aggregate compensation for directors during 2011 was Ps. 9.1 million. For each meeting attended we paid US\$10,000 to each director with foreign residence and US\$6,500 to all other directors with residence in Mexico in 2011.

We paid US\$3,500 to each of the members of the Audit Committee per each meeting attended, and we paid US\$2,500 per meeting attended to each of the members of the Finance and Planning and the Corporate Practices Committees.

Our senior management and executive officers participate in our benefit plans on the same basis as our other employees. Members of our board of directors do not participate in our benefit plans. As of December 31, 2011, amounts accrued for all employees under these pension and retirement plans were Ps. 2,160 million, of which Ps. 1,068 million is already funded.

## **EVA-Based Bonus Program**

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

Approximately 50% of the bonus is based on quantitative objectives determined by the Economic Value Added, or EVA, methodology. The objectives established for executives are based on a combination of the EVA generated by us and FEMSA on a consolidated basis, calculated at approximately 70% and 30%, respectively. Qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

In addition, we provide a defined contribution plan of share compensation to certain key executives, consisting of an annual cash bonus to purchase FEMSA and our Company's shares or options, based on the executive's responsibility in the organization, the EVA result achieved by the business unit that the executive works within, and the executive's individual performance. The acquired shares or options are deposited in a trust, and executives may access them one year after they are vested at 20% per year. Fifty percent of our annual executive bonus is permitted to be used to purchase FEMSA shares or options and the remaining 50% to purchase our shares or options. As of December 31, 2011, 2010 and 2009, no options have been granted to employees.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of the completion of goals established each year. The bonuses are recorded as income from operations and are paid in cash for the acquisition of shares of the trust the following year. During the years ended December 31, 2011, 2010 and 2009, the bonus expense recorded amounted to Ps. 599 million, Ps. 547 million, and Ps. 630 million,

respectively.

### **Share Ownership**

As of April 20, 2012, several of our directors and alternate directors serve on the technical committee as trust participants under the Irrevocable Trust No. 463 established at INVEX, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, as Trustee, which is the owner of 74.86% of the voting stock of FEMSA, which in turn owns 50.0% of our outstanding capital stock. As a result of the technical committee's internal procedures, the technical committee as a whole is deemed to have beneficial ownership with sole voting power of all the shares deposited in the voting trust, and the trust participants, as technical committee members, are deemed to have beneficial ownership with shared voting power over those same deposited shares. These directors and alternate directors are Alfonso Garza Garza, Paulina Garza de Marroquín, Bárbara Garza Gonda de Braniff, Mariana Garza de Treviño, Max Michel Suberville and Eva Garza de Fernández. **See “Item 7. Major Shareholders and Related Party Transactions—Major Shareholders.”** None of our other directors, alternate directors or executive officers is the beneficial owner of more than 1% of any class of our capital stock.

## Board Practices

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

Under our bylaws, directors serve one-year terms although they continue in office for up to 30 days until successors are appointed. If no successor is appointed during this period, the board of directors may appoint interim members, who will be ratified or substituted at the next shareholders meeting after such event occurs. None of the members of our board of directors or senior management of our subsidiaries has service agreements providing for benefits upon termination of employment.

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

*Finance and Planning Committee.* The Finance and Planning Committee works with management to set annual and long-term strategic and financial plans of the company and monitors adherence to these plans. It is responsible for setting our optimal capital structure and recommends the appropriate level of borrowing as well as the issuance of securities. Financial risk management is another responsibility of the Finance and Planning Committee. Irial Finan is the chairman of the Finance and Planning Committee. The additional members include: Javier Astaburuaga Sanjines, Federico Reyes García, Ricardo Guajardo Touché and Enrique Senior Hernández. The secretary of the Finance and Planning Committee is Héctor Treviño Gutiérrez, our Chief Financial Officer.

*Audit Committee.* The Audit Committee is responsible for reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee; the internal auditing function also reports to the Audit Committee. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, the company compensates the independent auditor and any outside advisor hired by the Audit Committee and provides funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. José Manuel Canal Hernando is the chairman of the Audit Committee and the “audit committee financial expert”. The additional members are: Alfonso González Migoya, Charles H. McTier, Francisco Zambrano Rodríguez and Ernesto Cruz Velázquez de León. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards. The secretary of the Audit Committee, who is not a member, is José González Ornelas, head of FEMSA’s auditing and operating control area.

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

Corporate Practices Committee are Gary Fayard and Alfonso Garza Garza.

*Advisory Board.* Our board of directors approved the creation of a committee whose main role will be to advise and propose initiatives to our board of directors through the Chief Executive Officer. This committee will mainly be comprised of former shareholders of the various bottling businesses that merged with us, whose experience will constitute an important contribution to our operations.

## Employees

As of December 31, 2011, our headcount was as follows: 44,661 in Mexico and Central America, 26,047 in South America and 8,271 in Venezuela. In the headcount we include the employees of third party distributors. The table below sets forth headcount by category for the periods indicated:

	As of December 31,		
	2011	2010	2009
Executives	939	759	708
Non-union	22,380	17,258	17,633
Union	37,517	33,085	31,692
Employees of third party distributors	18,143	17,347	17,393
<b>Total</b>	<b>78,979</b>	<b>68,449</b>	<b>67,426</b>

As of December 31, 2011, approximately 48% of our employees, most of whom were employed in Mexico, were members of labor unions. We had 117 separate collective bargaining agreements with 67 labor unions. In general, we have a good relationship with the labor unions throughout our operations, except in Colombia, Venezuela and Guatemala, which are or have been the subjects of significant labor-related litigation. See **“Item 8. Financial Information—Consolidated Statements and Other Financial Information”** and **“Item 8. Financial Information—Legal Proceedings.”** We believe we have appropriate reserves for these litigation proceedings and do not currently expect them to have a material adverse effect.

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

## Insurance Policies

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



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

Our outstanding capital stock consists of three classes of securities: Series A shares held by FEMSA, Series D shares held by The Coca-Cola Company and Series L shares held by the public. The following table sets forth our major shareholders as of April 20, 2012:

<b>Owner</b>	<b>Outstanding Capital Stock</b>	<b>Percentage Ownership of Outstanding Capital Stock</b>	<b>Percentage of Voting Rights</b>
FEMSA (Series A shares) <sup>(1)</sup>	992,078,519	50.0%	63.0%
The Coca-Cola Company (Series D Shares) <sup>(2)</sup>	583,545,678	29.4%	37.0%
Public (Series L shares) <sup>(3)</sup>	409,829,732	20.6%	—
Total	1,985,453,929	100.0%	100.0%

(1) FEMSA owns these shares through its wholly-owned subsidiary Compañía Internacional de Bebidas, S.A. de C.V., which we refer to in this annual report as CIBSA. 74.86% of the voting stock of FEMSA is owned by the technical committee and trust participants under Irrevocable Trust No. 463 established at Banco Invex, S.A. Institución de Banca Múltiple, Invex Grupo Financiero, as Trustee. As a consequence of the voting trust's internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power of the shares deposited in the voting trust: BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/25078-7 (controlled by Max Michel Suberville), Paulina Garza Lagüera Gonda, Bárbara Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Eva Gonda Rivera, Eva Maria Garza Lagüera Gonda, Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Patricio Garza Garza, Juan Carlos Garza Garza, Eduardo Garza Garza, Eugenio Garza Garza, Alberto Bailleres Gonzalez, Maria Teresa Gual Aspe de Bailleres, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the Garza Lagüera family), Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), Magdalena Michel de David, Alepage, S.A. (controlled by Consuelo Garza Lagüera), BBVA Bancomer Servicios, S.A. as Trustee under Trust No. F/29013-0 (controlled by the estate of José Calderón Ayala, late father of José Calderón Rojas), Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, Franca Servicios, S.A. de C.V. (controlled by the estate of José Calderón Ayala, late father of José Calderón Rojas), BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David) and BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard).

(2) The Coca-Cola Company indirectly owns these shares through its wholly-owned subsidiaries, The Inmex Corporation and Dulux CBAI 2003 B.V.

(3) Holders of Series L shares are only entitled to vote in limited circumstances. See **“Item 10. Additional Information—Bylaws.”** Holders of ADSs are entitled, subject to certain exceptions, to instruct The Bank of New York, a depositary, as to the exercise of the limited voting rights pertaining to the Series L shares underlying their ADSs.

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

As of December 31, 2011, there were 22,401,383 of our ADSs outstanding, each ADS representing ten Series L shares. 67.0% of our outstanding Series L shares were represented by ADSs. As of April 20, 2012, 53.6% of our outstanding Series L shares were represented by ADSs, held by 365 holders (including The Depository Trust Company) with registered addresses outside of Mexico.

### **The Shareholders Agreement**

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

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

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

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

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

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

The shareholders agreement also contains provisions relating to the principal shareholders understanding as to our growth. It states that it is The Coca-Cola Company's intention that we will be viewed as one of a small number of its "anchor" bottlers in Latin America. In particular, the parties agree that it is desirable that we expand by acquiring additional bottler territories in Mexico and other Latin American countries in the event any become available through horizontal growth. In addition, The Coca-Cola Company has agreed, subject to a number of conditions, that if it obtains ownership of a bottler territory that fits with our operations, it will give us the option to acquire such territory. The Coca-Cola Company has also agreed to support prudent and sound modifications to our capital structure to support horizontal growth. The Coca-Cola Company's agreement as to horizontal growth expires upon either the elimination of the super-majority voting requirements described above or The Coca-Cola Company's election to terminate the agreement as a result of a default.

### **The Coca-Cola Memorandum**

In connection with the acquisition of Panamco in 2003, we established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and FEMSA that were memorialized in writing prior to completion of the acquisition. Although The Coca-Cola Memorandum has not been amended, we continue to

develop our relationship with The Coca-Cola Company (i.e. through, inter alia, acquisitions and taking on new product categories), and we therefore believe that The Coca-Cola Memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The terms are as follows:

- The shareholder arrangements between directly wholly owned subsidiaries of FEMSA and The Coca-Cola Company will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. See “—The Shareholders Agreement.”
- FEMSA will continue to consolidate our financial results under Mexican FRS.
- The Coca-Cola Company and FEMSA will continue to discuss in good faith the possibility of implementing changes to our capital structure in the future.
- There will be no changes in concentrate pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with us and will take our operating condition into consideration. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Brazil beginning in 2006 and in Mexico beginning in 2007. These increases were fully implemented in Brazil 2008 and in Mexico in 2009.
- The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. We currently believe the likelihood of this term applying is remote.
- FEMSA, The Coca-Cola Company and us will meet to discuss the optimal Latin American territorial configuration for the *Coca-Cola* bottler system. During these meetings, we will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, we will entertain any potential combination as long as it is strategically sound and done at fair market value.
- We would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. The Coca-Cola Company, FEMSA and us would explore these alternatives on a market-by-market basis at the appropriate time.
- The Coca-Cola Company agreed to sell to a subsidiary of FEMSA sufficient shares to permit FEMSA to beneficially own 51% of our outstanding capital stock (assuming that this subsidiary of FEMSA does not sell any shares and that there are no issuances of our stock other than as contemplated by the acquisition). As a result of this understanding, in November 2006, FEMSA acquired, through a subsidiary, 148,000,000 of our Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8.02% of the total outstanding equity of Coca-Cola FEMSA, at a price of US\$ 2.888 per share for an aggregate amount of US\$ 427.4 million. Pursuant to our bylaws, the acquired shares were converted from Series D shares to Series A shares.
- We may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and FEMSA will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that FEMSA and The Coca-Cola Company will reach agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.



- We entered into a stand-by credit facility in December 2003 with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

### **Cooperation Framework with The Coca-Cola Company**

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

- **Sustainable growth of sparkling beverages, still beverages and waters:** Together with The Coca-Cola Company, we have defined a platform to jointly pursue incremental growth in the sparkling beverages category, as well as accelerated development of still beverages and waters across Latin America. To this end, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase for marketing support of the entire portfolio. In addition, the framework contemplates a new, all-encompassing business model for the development, organically and through acquisitions, of still beverages and waters that further aligns our and The Coca-Cola Company's objectives and should contribute to incremental long-term value creation for both companies. With this objective in mind, we have jointly acquired the Brisa bottled water business in Colombia, we have formalized a joint venture for the *Jugos del Valle* products in Mexico and Brazil and we have formalized certain agreements to develop the *Crystal* water business and the Matte Leao business in Brazil with other bottlers and the business of Grupo Estrella Azul, a leading dairy and juice-based beverage company in Panama. In addition, during 2011 we formalized a joint venture to develop certain coffee products in our territories.
- **Our horizontal growth:** The framework includes The Coca-Cola Company's endorsement of our aspiration to continue being a leading participant in the consolidation of the Coca-Cola system in Latin America, as well as our exploration of potential opportunities in other markets where our operating model and strong execution capabilities could be leveraged. For example, in 2008 we entered into a transaction with The Coca-Cola Company to acquire from it, REMIL, which was The Coca-Cola Company's wholly owned bottling franchise in the majority of the State of Minas Gerais of Brazil.
- **Long-term vision in relationship economics:** We and The Coca-Cola Company understand each other's business objectives and growth plans, and the new framework provides long-term perspective on the economics of our relationship. This will allow us and The Coca-Cola Company to focus on continuing to drive the business forward and generating profitable growth.

## RELATED PARTY TRANSACTIONS

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

### FEMSA

We regularly engage in transactions with FEMSA and its subsidiaries.

We sell our products to certain FEMSA subsidiaries, substantially all of which consists of our sales to a chain of convenience stores under the name Oxxo. The aggregate amount of these sales to Oxxo was Ps. 2,088 million, Ps. 1,623 million, and Ps. 1,263 million in 2011, 2010 and 2009, respectively.

We also purchase products from FEMSA and its subsidiaries. The aggregate amount of these purchases was Ps. 3,665 million, Ps. 5,412 million, and Ps. 5,941 million in 2011, 2010 and 2009, respectively. These amounts principally relate to raw materials, beer, assets and services provided to us by FEMSA. In January 2008, we renewed our service agreement with another subsidiary of FEMSA, which provides for the continued provision of administrative services relating to insurance, legal and tax advice, relations with governmental authorities and certain administrative and internal auditing services that it has been providing since June 1993. In November 2000, we entered into a service agreement with a subsidiary of FEMSA for the transportation of finished products from our production facilities to our distribution centers within Mexico. In November 2001, we entered into two franchise bottler agreements with Promotora de Marcas Nacionales, S.A. de C.V., an indirect subsidiary of FEMSA, under which we became the sole franchisee for the production, bottling, distribution and sale of *Mundet* brands in the valley of Mexico and in most of our operations in Southeast Mexico. In September 2010, FEMSA sold the *Mundet* brand in Mexico to The Coca-Cola Company through The Coca-Cola Company's acquisition of 100% of the equity interest of Promotora de Marcas Nacionales, S.A. de C.V. We remain the licensee of the *Mundet* trademark under the license agreements with Promotora de Marcas Nacionales, S.A. de C.V. Both agreements are renewable for ten-year terms, subject to non-renewal by either party with notice to the other party. We recently expanded the territories covered by these agreements to certain of our operations outside of Mexico. We primarily purchase our glass bottles in Mexico from Glass & Silice S.A. de C.V. (formerly VICHISA), a wholly-owned subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza), currently a wholly-owned subsidiary of the Heineken Group. The aggregate amount of our purchases from Glass & Silice S.A. de C.V. (formerly VICHISA) amounted to Ps. 320.2 million, Ps. 304.5 million and Ps. 335.1 million in 2011, 2010 and 2009, respectively. Finally, we continue to distribute and sell the *Kaiser* beer portfolio in our Brazilian territories through the 20-year term, consistent with arrangements in place with Cervejarias Kaiser since 2006, prior the acquisition of Cervejarias Kaiser by Cuauhtémoc Moctezuma Holding, S.A. de C.V., formerly known as FEMSA Cerveza. On April 30, 2010, the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group closed. **See "Item 3. Key Information—Risk Factors—Risks Related to Our Company—We have significant transactions with affiliates, particularly The Coca-Cola Company and FEMSA, which may create the potential for conflicts of interest and could result in less favorable terms to us."**

FEMSA is also a party to the understandings we have with The Coca-Cola Company relating to specified operational and business issues. A summary of these understandings is set forth under "**—Major Shareholders—The Coca-Cola Memorandum.**"



**The Coca-Cola Company**

We regularly engage in transactions with The Coca-Cola Company and its affiliates. We purchase all of our concentrate requirements for *Coca-Cola* trademark beverages from The Coca-Cola Company. Total expenses charged to us by The Coca-Cola Company for concentrates were approximately Ps. 21,183 million, Ps. 19,371 million, and Ps. 16,863 million in 2011, 2010 and 2009, respectively. Our company and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to our coolers, and bottles and cases investment program. We received contributions to our marketing expenses and coolers, and bottles and cases investment program of Ps. 2,561 million, Ps. 2,386 million, and Ps. 1,945 million in 2011, 2010 and 2009, respectively.

In December 2007 and May 2008, we sold most of our proprietary brands to The Coca-Cola Company. The proprietary brands are licensed back to us by The Coca-Cola Company pursuant to our bottler agreements. The December 2007 transaction was valued at US\$ 48 million and the May 2008 transaction was valued at US\$ 16 million. We believe that both of these transactions were conducted on an arm's length basis. Revenues from the sale of proprietary brands realized in prior years in which we have a significant continuing involvement are deferred and amortized against the related costs of future sales over the estimated sales period. The balance to be amortized amounted to Ps. 302 million, Ps. 547 million, and Ps. 616 million as of December 31, 2011, 2010 and 2009, respectively. The short-term portions to be amortized amounted to Ps. 197 million, Ps. 276 million, and Ps. 203 million at December 31, 2011, 2010 and 2009, respectively. The short-term portions are included in other current liabilities. The long-term positions are included in other liabilities.

In Argentina, we purchase pre-formed plastic ingots, as well as returnable plastic bottles from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a *Coca-Cola* bottler with operations in Argentina, Chile and Brazil in which The Coca-Cola Company has a substantial interest.

In Argentina, we mainly use HFCS that we purchase from several different local suppliers as a sweetener in our products instead of sugar. We purchase glass bottles, plastic cases and other raw materials from several domestic sources. We purchase pre-formed plastic ingots, as well as returnable plastic bottles, at competitive prices from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a bottler of The Coca-Cola Company with operations in Argentina, Chile and Brazil, and other local suppliers. We also acquire pre-formed plastic ingots from ALPLA Avellaneda S.A. and other suppliers. We produce our own can presentations, aseptic packaging and hot filled products for distribution of our products to our customers in Buenos Aires.

In November 2007, Administración, a Mexican company owned directly or indirectly by us and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. Subsequently, we and The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle, through transactions completed during 2008. Taking into account the participations held by Grupo Tampico and Grupo CIMSA, we currently hold an interest of 24.0% in the Mexican joint business and approximately 19.7% in the Brazilian joint businesses. Jugos del Valle sells fruit juice-based beverages and fruit derivatives.

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

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

In August 2010, we acquired from The Coca-Cola Company along with other Brazilian *Coca-Cola* bottlers the business operations of the *Matte Leao* tea brand. As of April 20, 2012, we have a 19.4% indirect interest in the *Matte Leao* business in Brazil.

In March 2011, we acquired with The Coca-Cola Company, through Compañía Panameña de Bebidas S.A.P.I. de C.V., Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. We will continue to develop this business with The Coca-Cola Company.

In March 2011, with The Coca-Cola Company, through Compañía de Bebidas Panameñas S.A.P.I. de C.V. we entered into several credit agreements (the “Credit Facilities”), pursuant to which we lent an aggregate amount of US\$112,257,620 to Estrella Azul. Subject to certain events which could lead to an acceleration of payments, the principal balance of the Credit Facilities is payable in one installment on March 24, 2021.

In February 2012, we entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. We remain in the process of evaluating this potential acquisition.

### **Associated Companies**

We also regularly engage in transactions with companies in which we own an equity interest that are not affiliated with The Coca-Cola Company, as described under “—The Coca-Cola Company.” We believe these transactions are on terms comparable to those that would result from arm’s length negotiations with unaffiliated third parties.

In Mexico, we purchase sparkling beverages in cans from Industria Envasadora de Querétaro, S.A. de C.V., or IEQSA, in which we hold an equity interest of 19.2%. We paid IEQSA Ps. 262 million, Ps. 196 million, and Ps. 208 million in 2011, 2010 and 2009, respectively. IEQSA purchases aluminum cans from FEMSA. We also purchase sugar from Beta San Miguel and Piasa, both sugar-cane producers in which, as of April 20, 2012, we hold a 2.5% and 13.2% equity interest, respectively. We paid Ps. 1,398 million, Ps. 1,307 million, and Ps. 713 million to Beta San Miguel in 2011, 2010 and 2009, respectively.

In Mexico, we participate with certain *Coca-Cola* bottlers in PROMESA, in which, as of April 20, 2012, we hold a 25.0% interest. Through PROMESA, we purchase our cans for our Mexican operations, which are manufactured by Fábricas de Monterrey, S.A. de C.V., or FAMOSA, a wholly-owned subsidiary of Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza), currently a wholly-owned subsidiary of the Heineken Group. We purchased from PROMESA approximately Ps. 701 million, Ps. 684 million, and Ps. 783 million in 2011, 2010, and 2009, respectively.

### **Other Related Party Transactions**

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

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

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

In October 2011, we executed certain agreements with affiliates of Grupo Tampico to acquire specific products and services such as plastic cases, certain trucks and car brands, as well as autoparts exclusively for the territories of Grupo Tampico, which agreements provide for certain preferences to be elected as suppliers in our suppliers' bidding processes.

## **Item 8. Financial Information**

**CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

**Consolidated Financial Statements**

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

**Dividend Policy**

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

**Significant Changes**

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

## LEGAL PROCEEDINGS

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

### Mexico

***Antitrust Matters.*** During 2000, the CFC, pursuant to complaints filed by PepsiCo and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation (TCECC) and its bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers. After the corresponding legal proceedings in 2008, a Mexican Federal Court, rendered a final adverse judgment against two out of our eight Mexican subsidiaries involved in the proceedings (including Grupo CIMSA and Grupo Tampico), upholding a fine of approximately Ps.10.5 million imposed by CFC on each of the two subsidiaries and ordering the immediate suspension of such practices of alleged exclusivity arrangements and conditional dealing. With respect to the complaints against the remaining six subsidiaries (including Grupo CIMSA and Grupo Tampico), a final favorable resolution was rendered in Mexican Federal Court and the CFC, which ruling dropped the fines and ruled in favor of all of our subsidiaries, on the grounds of insufficient evidence to prove individual and specific liability in the alleged antitrust violations. These resolutions are final and unappealable.

In February 2009, the CFC began a new investigation of alleged monopolistic practices consisting of sparkling beverage sales subject to exclusivity agreements and the granting of discounts and/or benefits in exchange for exclusivity arrangements with certain retailers. In December 2011, the CFC closed this investigation on the grounds of insufficient evidence of monopolistic practices by The Coca-Cola Company and its bottlers. However, on February 9, 2012 the plaintiff appealed the decision of the CFC. The CFC has not yet ruled on whether to accept or deny the appeal.



## Central America

***Antitrust Matters in Costa Rica.*** During August 2001, the *Comisión para Promover la Competencia* in Costa Rica (Costa Rican Antitrust Commission) pursuant to a complaint filed by PepsiCo. and its bottler in Costa Rica initiated an investigation of the sales practices of The Coca-Cola Company and our Costa Rican subsidiary for alleged monopolistic practices in retail distribution, including sales exclusivity arrangements. A ruling from the Costa Rican Antitrust Commission was issued in July 2004, which found our subsidiary in Costa Rica engaged in monopolistic practices with respect to exclusivity arrangements, pricing and the sharing of coolers under certain limited circumstances and imposed a fine of US\$ 130,000 (approximately Ps. 1.5 million). The court dismissed our appeal of the ruling. On August 30, 2011, we appealed the court's dismissal before the Supreme Court, but the Supreme Court affirmed the dismissal on December 1, 2011. Notwithstanding the above, the above resolutions will not have a material adverse effect on our financial condition and operations because we have already paid the Costa Rican Antitrust Commission's fine and are currently complying with its resolution.

In November 2004, Ajecen del Sur S.A., the bottler of *Big Cola* in Costa Rica, filed a complaint before the Costa Rican Antitrust Commission related to monopolistic practices in retail distribution and exclusivity agreements against The Coca-Cola Company and our Costa Rican subsidiary. The Costa Rican Antitrust Commission has decided to pursue an investigation. The period for gathering of evidence ended in August 2008, and the final arguments have been filed. Based on our experience, we expect that the maximum fine that could be imposed is US\$ 300,000 (approximately Ps. 3.5 million). The final resolution issued by the Costa Rican Antitrust Commission ruled in our favor, imposing no fine.

## Colombia

**Labor Matters.** During July 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the U.S. District Court for the Southern District of Florida against certain of our subsidiaries. The plaintiffs alleged that the subsidiaries engaged in wrongful acts against the labor union and its members in Colombia, including kidnapping, torture, death threats and intimidation. The complaint alleges claims under the U.S. Alien Tort Claims Act, Torture Victim Protection Act, Racketeer Influenced and Corrupt Organizations Act and state tort law and seeks injunctive and declaratory relief and damages of more than US\$ 500 million, including treble and punitive damages and the cost of the suit, including attorney fees. In September 2006, the federal district court dismissed the complaint with respect to all claims. The plaintiffs appealed and in August 2009, the Appellate Court affirmed the decision in favor of our subsidiaries. The plaintiffs moved for a rehearing, and in September 2009, the rehearing motion was denied. Plaintiffs attempted to seek reconsideration *en banc*, but so far, the court has not considered it.

## Venezuela

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

## Brazil

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

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

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

	<b>Mexican Stock Exchange</b>		<b>New York Stock Exchange</b>	
	<b>Mexican pesos per Series L Share</b>		<b>U.S. dollars per ADS</b>	
	High <sup>(1)</sup>	Low <sup>(1)</sup>	High <sup>(1)</sup>	Low <sup>(1)</sup>
2007:				
Full year	Ps. 53.65	Ps. 37.78	US\$ 49.28	US\$ 34.05
2008:				
Full year	Ps. 64.49	Ps. 38.00	US\$ 62.50	US\$ 27.74
2009:				
First quarter	Ps. 62.90	Ps. 40.96	US\$ 45.13	US\$ 26.41
Second quarter	56.83	48.23	43.09	35.16
Third quarter	65.81	53.31	49.47	39.03
Fourth quarter	86.71	66.43	66.87	47.75
2010:				
First quarter	Ps. 88.07	Ps. 74.24	US\$ 69.67	US\$ 57.67
Second quarter	94.00	79.90	70.99	62.59
Third quarter	103.37	81.83	81.26	62.76
Fourth quarter	103.36	92.25	83.61	76.96
2011:				
First quarter	Ps. 102.34	Ps. 87.40	US\$ 83.65	US\$ 72.08
Second quarter	110.48	91.15	93.01	78.47
Third quarter	126.95	104.61	98.90	84.84
Fourth quarter	135.91	116.20	97.24	83.34
2012:				
January	Ps. 133.58	Ps. 125.61	US\$ 98.99	US\$ 94.30
February	130.46	126.59	101.46	98.95
March	135.92	125.91	105.91	97.75
First Quarter	135.92	125.61	105.91	94.30

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





## **TRADING ON THE MEXICAN STOCK EXCHANGE**

The Mexican Stock Exchange or the *Bolsa Mexicana de Valores, S.A.B. de C.V.*, located in Mexico City, is the only stock exchange in Mexico. Trading takes place principally through automated systems that are open between the hours of 8:30 a.m. and 3:00 p.m. Mexico City time, each business day. Beginning in March 2008, during daylight savings time, trading hours change to match the New York Stock Exchange trading hours, opening at 7:30 a.m. and closing at 2:00 p.m. local time. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the Series L shares that are directly or indirectly (for example, through ADSs) quoted on a stock exchange outside of Mexico.

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

## Item 10. Additional Information

### BYLAWS

The following is a summary of the material provisions of our bylaws and applicable Mexican law. The last amendment of our bylaws was approved on October 10, 2011. For a description of the provisions of our bylaws relating to our board of directors and executive officers, see “**Item 6. Directors, Senior Management and Employees.**”

The main changes made to our bylaws on October 10, 2011, were to Article 25, which increased the number of our board members from 18 to 21 and the number of directors that each series is entitled to appoint, and Article 26 which provides that the shareholders meeting that approves Series B shares issuance will determine which series of shares is to reduce the number of directors that such series is entitled to appoint. Article 6 of our bylaws was also amended to include the number of shares included in our minimum fixed capital stock without the right to withdraw.

### Organization and Register

We were incorporated on October 30, 1991, as a *sociedad anónima de capital variable* (Mexican variable stock corporation) in accordance with the *Ley General de Sociedades Mercantiles* (Mexican General Corporations Law). On December 5, 2006, we became a *sociedad anónima bursátil de capital variable* (Mexican variable capital listed stock company) and amended our bylaws in accordance with the Mexican Securities Market Law. We were registered in the *Registro Público de la Propiedad y del Comercio* (Public Registry of Property and Commerce) of Monterrey, Nuevo León, Mexico on November 22, 1991 under mercantile number 2986, folio 171, volume 365, third book of the Commerce section. In addition, due to the change of address of our company to Mexico City, we are also registered in the Public Registry of Property and Commerce of Mexico City since June 28, 1993 under mercantile number 176, 543.

### Purposes

The main corporate purposes of our company include the following:

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

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



### **Voting Rights, Transfer Restrictions and Certain Minority Rights**

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

- restrictions on transfer of the Series A and Series D shares;
- limitations on the voting rights of Series L shares;
- the respective rights of the Series A, Series D and Series L shares, voting as separate classes in a special meeting, to elect specified numbers of our directors and alternate directors;
- the respective rights of Series D shares to participate in the voting of extraordinary matters, as they are defined by our bylaws; and
- prohibitions on non-Mexican ownership of Series A shares. **See “Item 6. Directors, Senior Management and Employees,” and “—Additional Transfer Restrictions Applicable to Series A and Series D shares.”**

Under our bylaws, holders of Series L shares are entitled to vote in limited circumstances. They may appoint for election and elect up to three of our maximum of 21 directors and, in certain circumstances where holders of Series L shares have not voted for the director elected by holders of the majority of these series of shares, they may be entitled to elect and remove one director, through a general shareholders meeting, if they own 10% or more of all issued, subscribed and paid shares of the capital stock of the company, pursuant to the Mexican Securities Market Law. **See “Item 6. Directors, Senior Management and Employees.”** In addition, they are entitled to vote on certain matters, including certain changes in our corporate form, mergers involving our company when our company is the merged entity or when the principal corporate purpose of the merged entity is not related to the corporate purpose of our company, the cancellation of the registration of the Series “L” shares in the Mexican Stock Exchange or any other foreign stock exchange and those matters for which the Mexican Securities Market Law expressly allow them to vote.

Holders of our shares in the form of ADSs will receive notice of shareholders meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner. Our past practice, which we intend to continue, has been to inform the depository to timely notify holders of our shares in the form of ADSs of upcoming votes and ask for their instructions.

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

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

In the event of cancellation of the registration of any of our shares in the RNV, whether by order of the CNBV or at our request with the prior consent of 95% of the holders of our outstanding capital stock, our bylaws and the Mexican Securities Market Law require us to make a public offer to acquire these shares prior to their cancellation.

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

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

Pursuant to the Mexican Securities Market Law, we are subject to a number of minority shareholder protections. These minority protections include provisions that permit:

- holders of at least 10% of our outstanding capital stock entitled to vote (including in a limited or restricted manner) may require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders meeting;
- holders of at least 5% of our outstanding capital stock may bring an action for liability against our directors, the secretary of the board of directors or certain key officers;
- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, at any shareholders meeting to request that resolutions with respect to any matter on which they considered they were not sufficiently informed be postponed;
- holders of 20% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and
- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

## **Shareholders Meetings**

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 of the Mexican General Corporations Law, Article 53 of the Mexican Securities Market Law and in our bylaws. These matters include, among others: amendments to the bylaws, liquidation, dissolution, merger and transformation from one form of company to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require an extraordinary meeting to consider the cancellation of the registration of our shares with the RNV or with other foreign stock exchanges on which our shares may be listed, the amortization of distributable earnings into capital stock, and an increase in our capital stock. All other matters, including increases or decreases affecting the variable portion of our capital stock, are considered at an ordinary meeting.

An ordinary meeting of the holders of Series A and Series D shares must be held at least once each year (1) to consider the approval of the financial statements of our Company for the preceding fiscal year and (2) to determine the allocation of the profits of the preceding year. Further, any transaction to be entered into by us or our subsidiaries

within the next fiscal year that represents 20% or more of our consolidated assets must be approved at an ordinary shareholders meeting at which holders of Series L shares shall be entitled to vote.

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

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

The quorum for special meetings of any series of shares is 75% of the holders of the subscribed and paid capital stock of such shares, and action may be taken by holders of a majority of such series of shares.

Resolutions adopted at an ordinary or extraordinary shareholders meeting are valid when adopted by holders of at least a majority of the subscribed and paid in capital stock voting (and not abstaining) at the meeting, unless in the event of any decisions defined as extraordinary matters by the bylaws or any payment of dividends above 20% of the preceding years' retained earnings, which shall require the approval of a majority of shareholders of each of Series A and Series D shares voting together as a single class. Resolutions adopted at a special shareholders meeting are valid when adopted by the holders of at least a majority of the subscribed and paid shares of the series of shares entitled to attend the special meeting.

Shareholders meetings may be called by the board of directors, the Audit Committee or the Corporate Practices Committee and, under certain circumstances, a Mexican court. Holders of 10% or more of our capital stock may require the chairman of the board of directors, or the chairmen of the Audit Committee or Corporate Practices Committee to call a shareholders meeting. A notice of meeting and an agenda must be published in a newspaper of general circulation in Mexico City at least 15 days prior to the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whomever convened the meeting. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice. To attend a meeting, shareholders must deposit their shares with the company or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend the meeting, a shareholder may be represented by an attorney-in-fact.

#### **Additional Transfer Restrictions Applicable to Series A and Series D Shares**

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

#### **Dividend Rights**

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

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

### **Change in Capital**

According to our bylaws, any change in our authorized capital stock requires a resolution of an extraordinary meeting of shareholders. We are permitted to issue shares constituting fixed capital and shares constituting variable capital. The fixed portion of our capital stock may be increased or decreased only by amendment of our bylaws adopted by a resolution at an extraordinary meeting of the shareholders. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary meeting of the shareholders without amending our bylaws. All changes in the fixed or variable capital have to be registered in our capital variation registry.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of shareholders' equity. Treasury stock may only be sold pursuant to a public offering.

### **Preemptive Rights**

The Mexican Securities Market Law permits the issuance and sale of shares through a public offering without granting shareholders preemptive rights, if permitted by the bylaws and upon, among other things, express authorization of the CNBV and the approval of the extraordinary shareholders meeting called for such purpose. Under Mexican law and our bylaws, except in these circumstances and other limited circumstances (including mergers, sales of repurchased shares, conversion into shares of convertible securities and capital increases by means of payment in kind for shares or shares issued in return for the cancellation of debt), in the event of an increase in our capital stock, a holder of record generally has the right to subscribe to shares of a series held by such holder sufficient to maintain such holder's existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase in the Mexican Official State Gazette. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights under the terms of the deposit agreement. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

### **Limitations on Share Ownership**

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

As a general rule, the Mexican Foreign Investment Law allows foreign holdings of up to 100% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Mexican Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign

holdings are applicable. Foreign investment in our shares is not limited under either the Mexican Foreign Investment Law or its regulations.



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

### **Other Provisions**

**Authority of the Board of Directors.** The board of directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Market Law, the board of directors must approve, observing at all moments their duty of care and duty of loyalty, among other matters:

- any transactions with related parties outside the ordinary course of our business;
- significant asset transfers or acquisitions;
- material guarantees or collateral;
- appointment of officers and managers deemed necessary, as well as the necessary committees;
- the five-year business plan and the annual business plan;
- internal policies; and
- other material transactions.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of the directors voting (and not abstaining). The majority of the members, which shall include the vote of at least two Series D Shares directors, shall approve any extraordinary decision including any new business acquisition or combination or any change in the existing line of business, among others. If required, the chairman of the board of directors may cast a tie-breaking vote.

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

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

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

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

**Forfeiture of Shares.** As required by Mexican law, our bylaws provide that non-Mexican holders of our shares are (1) considered to be Mexican with respect to such shares that they acquire or hold and (2) may not invoke the protection of their own governments in respect of the investment represented by those shares. Failure to comply with our bylaws may result in a penalty of forfeiture of a shareholder's capital stock in favor of the Mexican state. Under this provision, a non-Mexican holder of our shares (including a non-Mexican holder of ADSs) is deemed to have agreed not to invoke the protection of its own government by asking such government to interpose a diplomatic claim against the Mexican state with respect to its rights as a shareholder, but is not deemed to have waived any other rights it may have, including any rights under the United States securities laws, with respect to its investment in our company. If a shareholder should invoke governmental protection in violation of this agreement, its shares could be forfeited to the Mexican state.

**Duration.** Our bylaws provide that our company's term is for 99 years from its date of incorporation, unless extended through a resolution of an extraordinary shareholders meeting.

**Fiduciary Duties—Duty of Care.** The Mexican Securities Market Law provides that the directors shall act in good faith and in our best interest and in the best interest of our subsidiaries. In order to fulfill its duty, the board of directors may:

- request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;
- require our officers and certain other persons, including the external auditors, to appear at board of directors' meetings to report to the board of directors;
- postpone board of directors' meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and
- require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.

Our directors may be liable for damages for failing to comply their duty of care if such failure causes economic damage to us or our subsidiaries and the director (1) failed to attend, board of directors' or committee meetings and as a result of, such failure, the board of directors was unable to take action, unless such absence is approved by the shareholders meeting, (2) failed to disclose to the board of directors or the committees material information necessary for the board of directors to reach a decision, unless legally prohibited from doing so or required to do so to maintain confidentiality, and (3) failed to comply with the duties imposed by the Mexican Securities Market Law or our bylaws.

**Fiduciary Duties—Duty of Loyalty.** The Mexican Securities Market Law provides that the directors and secretary of the board of directors shall keep confidential any non-public information and matters about which they have knowledge as a result of their position. Also, directors should abstain from participating, attending or voting at meetings related to matters where they have a conflict of interest.

The directors and secretary of the board of directors will be deemed to have violated the duty of loyalty, and will be liable for damages, when they obtain an economic benefit by virtue of their position. Further, the directors will fail to

comply with their duty of loyalty if they:

- vote at a board of directors' meeting or take any action on a matter involving our assets where there is a conflict of interest;
- fail to disclose a conflict of interest during a board of directors' meeting;

- enter into an voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;
- approve transactions without complying with the requirements of the Mexican Securities Market Law;
- use company property in violation of the policies approved by the board of directors;
- unlawfully use material non-public information; and
- usurp a corporate opportunity for their own benefit or the benefit of a third party, without the prior approval of the board of directors.

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

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

**Actions Against Directors.** Shareholders (including holders of Series L shares) representing, in the aggregate, not less than 5% of the capital stock may directly bring an action against directors

In the event of actions derived from any breach of the duty of care and the duty of loyalty, liability is exclusively in favor of the company. The Mexican Securities Market Law, contrary to the previous securities law, establishes that liability may be imposed on the members and the secretary of the board of directors, as well as to the relevant officers.

Notwithstanding, the Mexican Securities Market Law provides that the members of the board of directors will not incur, individually or jointly, in liability for damages and losses caused to the company, when their acts were made in good faith, provided that (1) the directors complied with the requirements of the Mexican Securities Market Law and with the company's bylaws, (2) the decision making or voting was based on information provided by the relevant officers, the external auditor or the independent experts, whose capacity and credibility do not offer reasonable doubt; (3) the negative economic effects could not have been foreseen, based on the information available; and (4) the resolutions of the shareholders meeting were observed.

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



## **MATERIAL AGREEMENTS**

We manufacture, package, distribute and sell sparkling beverages, still beverages, value-added dairy products, coffee products, and bottled water under bottler agreements with The Coca-Cola Company. In addition, pursuant to a tradename license agreement with The Coca-Cola Company, we are authorized to use certain trademark names of The Coca-Cola Company. For a discussion of the terms of these agreements, see **“Item 4. Information on the Company—Bottler Agreements.”**

We operate pursuant to a shareholders agreement, as amended from time to time, among two subsidiaries of FEMSA, The Coca-Cola Company and certain of its subsidiaries. For a discussion of the terms of this agreement, see **“Item 7. Major Shareholders and Related Party Transactions—Major Shareholders—The Shareholders Agreement.”**

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

In September 2010, we renewed and extended our existing agreements with Hewlett Packard (formerly known as Electronic Data Systems before acquisition by Hewlett Packard), for the outsourcing of technology services in all of our territories. These agreements are valid until August 2015, unless terminated by us through previous notice to Hewlett Packard.

See **“Item 5. Operating and Financial Review and Prospects—Summary of Significant Debt Instruments”** for a brief discussion of certain terms of our significant debt agreements.

See **“Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions”** for a discussion of other transactions and agreements with our affiliates and associated companies.

## TAXATION

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

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

### Mexican Taxation

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

### Tax Considerations Relating to the Series L shares and the ADSs

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

**Taxation of Dispositions of ADSs or Series L shares.** Gains from the sale or disposition of ADSs by non-resident holders will not be subject to Mexican withholding tax. Gains from the sale of Series L shares carried out by non



resident holders through the Mexican Stock Exchange or other securities markets situated in countries that have a tax treaty with Mexico will generally be exempt from Mexican tax provided certain additional requirements are met. Also, certain restrictions will apply if the Series L shares are transferred as a consequence of public offerings.

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

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

### **Other Mexican Taxes**

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

### **United States Taxation**

#### **Tax Considerations Relating to the Series L shares and the ADSs**

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

**Taxation of Dividends.** The gross amount of any dividends paid with respect to the Series L shares represented by ADSs or the Series L shares generally will be included in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the U.S. holder, in the case of the Series L shares, or by the depository, in the case of the Series L shares represented by ADSs, and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Dividends, which will be paid in Mexican pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the U.S. holder, in the case of the Series L shares, or by the depository, in the case of the Series L shares represented by the ADSs (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of Series L shares or ADSs for taxable years beginning before January 1, 2013 is subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on the ADSs will be treated as qualified dividends if (1) the issuer is eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (2) the issuer was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2011 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2012 taxable year. U.S. holders should consult their tax advisers regarding the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of receipt. Dividends generally will constitute foreign source “passive income” for U.S. foreign tax credit purposes.



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

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

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

Gain, if any, realized by a U.S. holder on the sale or other disposition of Series L shares or ADSs will be treated as U.S. source income for U.S. foreign tax credit purposes.

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

### **United States Backup Withholding and Information Reporting**

A U.S. holder of Series L shares or ADSs may, under certain circumstances, be subject to "backup withholding" with respect to certain payments to such U.S. holder, such as dividends or the proceeds of a sale or disposition of Series L shares or ADSs unless such holder (1) is a corporation or comes within certain exempt categories, and demonstrates this fact when so required, or (2) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules does not constitute a separate tax and will be creditable against the holder's U.S. federal income tax liability. While non-U.S. holders generally are exempt from backup withholding, a non-U.S. holder may, in certain circumstances, be required to comply with certain information and identification procedures in order to prove this exemption.

### **DOCUMENTS ON DISPLAY**

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference room in Washington, D.C., at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public on the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov) and at our website at [www.coca-colafemsa.com](http://www.coca-colafemsa.com). (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this annual report.)





## Item 11. Quantitative and Qualitative Disclosures about Market Risk

As a part of our risk management strategy, we use derivative financial instruments with the purpose of (1) achieving a desired liability structure with a balanced risk profile, (2) managing the exposure to production input and raw material costs and (3) hedging balance sheet and cash flow exposures to foreign currency fluctuation. We do not use derivative financial instruments for speculative or profit-generating purposes. We track the fair value (mark to market) of our derivative financial instruments and its possible changes using the Value at Risk methodology, as well as by generating scenario analyses.

### Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2011, we had total indebtedness of Ps. 22,574 million, of which 47% bore interest at fixed interest rates and 53% bore interest at variable interest rates. After giving effect to our swap and forward contracts, as of December 31, 2011, 65% of our debt was fixed-rate and 35% of our debt was variable-rate, calculated by weighting each year's outstanding debt balance mix. The interest rate on our variable rate debt denominated in U.S. dollars is generally determined by reference to the London Interbank Offer Rate, or LIBOR, and the interest rate on our variable rate debt denominated in Mexican pesos is generally determined by reference to the *Tasa de Interés Interbancaria de Equilibrio* (the Equilibrium Interbank Interest Rate), or TIEE. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our financial instruments that are sensitive to changes in interest rates, without giving effect to interest rate swaps. The table presents weighted average interest rates by expected contractual maturity dates. Weighted average variable rates are based on the reference rates on December 30, 2011, plus spreads, contracted by us. The instruments' actual payments are denominated in U.S. dollars, Mexican pesos, Brazilian reais, Colombian pesos and Argentine pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, assuming the foreign exchange of Ps. 13.98 Mexican pesos per U.S. dollar reported by Banco de México quoted to us by dealers for the settlement of obligations in foreign currencies on December 30, 2011

The table below also includes the fair value of long-term debt based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities. Furthermore, the fair value of long-term notes payable is based on quoted market prices on December 31, 2011. As of December 31, 2011, the fair value represents a loss amount of Ps.716 million.

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

	At December 31, 2011						At Dec. 31, 2010		
	2012	2013	2014	2015	2016	2017 and thereafter	Total Carrying Value	Total Fair Value	Total Carrying Value
<b>Long-Term Debt and Notes:</b>									
Fixed Rate Debt and Notes									
U. S. dollars	-	-	-	-	-	6,990	6,990	7,737	6,183
<i>Interest Rate</i> <sup>(1)</sup>	-	-	-	-	-	4.6%	4.6%	-	4.6%
Mexican pesos	-	-	-	-	-	2,500	2,500	2,631	-
<i>Interest Rate</i> <sup>(1)</sup>	-	-	-	-	-	8.3%	8.3%	-	-
Brazilian reais	9	15	15	14	10	36	99	87	102
<i>Interest Rate</i> <sup>(1)</sup>	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	-	4.5%
Argentine pesos	514	81	-	-	-	-	595	570	684
<i>Interest Rate</i> <sup>(1)</sup>	16.4%	15.7%	-	-	-	-	18.5%	-	16.5%
Total Fixed Rate	523	96	15	14	10	9,526	10,184	11,026	6,969
Variable Rate Debt									
U.S. dollars	42	209	-	-	-	-	251	250	222
<i>Interest Rate</i> <sup>(1)</sup>	0.7%	0.7%	-	-	-	-	0.7%	-	0.6%
Mexican pesos	67	266	1,392	2,825	-	-	4,550	4,456	7,550
<i>Interest Rate</i> <sup>(1)</sup>	5.0%	5.0%	5.0%	5.0%	-	-	5.0%	-	5.0%
Notes ( <i>Certificados Bursátiles</i> )	3,000	-	-	-	2,500	-	5,500	5,499	-
<i>Interest Rate</i> <sup>(1)</sup>	4.7%	-	-	-	4.9%	-	4.8%	-	-
Brazilian reais	-	-	-	-	-	-	-	-	-
<i>Interest Rate</i> <sup>(1)</sup>	-	-	-	-	-	-	-	-	-
Colombian pesos	1,140	181	-	-	-	-	1,321	1,312	994
<i>Interest Rate</i> <sup>(1)</sup>	6.2%	6.6%	-	-	-	-	6.3%	-	4.7%
Argentine pesos	130	-	-	-	-	-	130	116	-
<i>Interest Rate</i> <sup>(1)</sup>	27.3%	-	-	-	-	-	27.3%	-	-
Total Variable Rate	4,379	656	1,392	2,825	2,500	-	11,752	11,633	8,767
Long Term Debt	4,902	752	1,407	2,839	2,510	9,526	21,936	22,659	15,736
Current portion of long term debt	4,902	-	-	-	-	-	4,902	4,951	225
Total Long-Term debt	-	752	1,407	2,839	2,510	9,526	17,034	17,708	15,511
<b>Derivative Instruments:</b>									
Interest Rate Swaps Mexican pesos									
Variable to fixed <sup>(3)</sup>	1,600	1,312	575	1,963	-	-	5,450	(282)	5,450
Interest pay rate	8.06%	8.48%	8.43%	8.63%	-	-	8.41%	-	8.41%
Interest receive rate	-	-	5.04%	5.02%	-	-	4.91%	-	4.95% /



4.74%

28dTIE	-	-	28dTIE	-	28dTIE
+0.22% <sup>(2)</sup>	-	-	+0.22% <sup>(2)</sup>	-	+0.14% <sup>(2)</sup>

- (1) Calculated by a weighted average annual rate.
- (2) Forward starting swaps in which the receive rate is not known, until the start of the validity period.
- (3) Notional amount.

A hypothetical, instantaneous and unfavorable change of 100 basis points in the average interest rate applicable to our floating-rate financial instruments held during 2011 would have increased our interest expense by approximately Ps. 92 million, or 7.7% over our interest expense of 2011, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest rate swap and cross-currency swap agreements.

### Foreign Currency Exchange Rate Risk

Our principal exchange rate risk involves changes in the value of the local currencies of each country in which we operate, relative to the U.S. dollar. In 2011, the percentage of our consolidated total revenues was denominated as follows:

#### Total Revenues by Currency At December 31, 2011

Currency	%
Mexican peso	35.7%
Colombian peso	9.6%
Venezuelan bolivar	16.1%
Argentine peso	7.5%
Brazilian real	25.0%
Other (Central America)	6.1%

We estimate that approximately 19.7% of our consolidated costs of goods sold are denominated in U.S. dollars for Mexican subsidiaries and in the aforementioned currencies for our non-Mexican subsidiaries. Substantially all of our costs denominated in a foreign currency, other than the functional currency of each country in which we operate, are denominated in U.S. dollars. During 2011, we entered into forward derivative instruments to hedge part of our Mexican peso fluctuation risk relative to our raw material costs denominated in U.S. dollars. These instruments are considered hedges for accounting purposes. As of December 31, 2011, 34.0% of our indebtedness was denominated in U.S. dollars, 53.8% in Mexican pesos and the remaining 12.2% in Brazilian reais, Colombian pesos and Argentine pesos (including the effect of derivative contracts held by us as of December 31, 2011, including cross currency swaps from Mexican pesos to U.S. dollars). Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency-denominated operating costs and expenses and of the debt service obligations with respect to our foreign currency-denominated debt. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency denominated-indebtedness is increased. See also “Item 3. Key Information—Risk Factors—Depreciation of the Mexican peso relative to the U.S. dollar could adversely affect our financial condition and results from operations.”

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the Mexican peso relative to the U.S. dollar occurring on December 31, 2011, would have resulted in an increase in our net consolidated comprehensive financing result expense of approximately Ps. 48.8 million, reflecting higher interest expense and foreign exchange gain generated by the cash balances held in U.S. dollars as of that date, net of the loss based on our U.S. dollar-denominated indebtedness at December 31, 2011. However, this result does not take into account any gain on monetary position that would be expected to result from an increase in the inflation rate generated by a devaluation of the Mexican peso relative to the U.S. dollar, which gain on monetary position would reduce the consolidated net comprehensive financing result, after giving effect to all of our interest rate swap and cross-currency swap agreements.



As of April 20, 2012, the exchange rates relative to the U.S. dollar of all the countries in which we operate have appreciated or depreciated compared to December 31, 2011 as follows:

	<b>Exchange Rate As of April 20, 2012</b>	<b>(Depreciation) or Appreciation</b>
Mexico	13.12	6.16%
Guatemala	7.78	0.41%
Nicaragua	23.32	(1.49)%
Costa Rica	509.03	1.79%
Panama	1.00	0.00%
Colombia	1,776.06	8.58%
Venezuela	4.30	0.00%
Brazil	1.88	(0.15)%
Argentina	4.41	(2.37)%

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies of each of the countries in which we operate relative to the U.S. dollar at December 31, 2011, would produce a reduction in shareholders' equity of approximately the following amounts:

	<b>Reduction in Shareholders' Equity (millions of Mexican pesos)</b>
Mexico	Ps. 586
Colombia	979
Venezuela	733
Brazil	1,791
Argentina	122
Other (Central America)	793

### **Equity Risk**

As of December 31, 2011 we did not have any equity risk derivatives.

### **Commodity Price Risk**

During 2011, we entered into futures contracts to hedge the cost of sugar in Brazil and Colombia with a notional value of Ps. 754 million, maturing in 2012 and 2013. The result of these commodity price contracts was a fair market value gain of Ps. 19 million as of December 31, 2011.

**Item 12. Description of Securities Other than Equity Securities**

**Item 12.A. Debt Securities**

Not applicable.

**Item 12.B. Warrants and Rights**

Not applicable.

**Item 12.C. Other Securities**

Not applicable.

**Item 12.D. American Depositary Shares**

The Bank of New York Mellon serves as the depository for our ADSs. Holders of our ADSs, evidenced by American Depositary Receipts, or ADRs, are required to pay various fees to the depository, and the depository may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the depository amounts in respect of expenses incurred by the depository or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, cable, telex and facsimile transmission, or conversion of foreign currency into U.S. dollars. The depository may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

ADS holders are also required to pay additional fees for certain services provided by the depository, as set forth in the table below.

<b>Depository service</b>	<b>Fee payable by ADS holders</b>
Issuance and delivery of ADRs, including in connection with share distributions	Up to US\$ 5.00 per 100 ADSs (or portion thereof)
Withdrawal of shares underlying ADSs	Up to US\$ 5.00 per 100 ADSs (or portion thereof)
Registration for the transfer of shares	Registration or transfer fees that may from time to time be in effect

In addition, holders may be required to pay a fee for the distribution or sale of securities. Such fee (which may be deducted from such proceeds) would be for an amount equal to the lesser of (1) the fee for the issuance of ADSs that would be charged as if the securities were treated as deposited shares and (2) the amount of such proceeds.

**Direct and indirect payments by the depository**

The depositary reimburses us for certain expenses we incur in connection with the ADS program, subject to a ceiling agreed between us and the depositary. These reimbursable expenses include listing fees and fees payable to service providers for the distribution of material to ADR holders. For the year ended December 31, 2011, this amount was approximately US\$ 108,000.

**Items 13-14. Not Applicable**

**Item 15. Controls and Procedures**

**(a) Disclosure Controls and Procedures**

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Controls – Integrated framework issued by the Committee of Sponsoring Organizations of the Tread way Commission, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

Our management assessment and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2011 excludes, in accordance with applicable guidance provided by the SEC, an assessment of the internal control over financial reporting of Grupo Tampico and Grupo CIMSA, which we acquired in October and December 2011, respectively. Grupo Tampico and Grupo CIMSA represented 4.3% and 5.2% of our total and net assets, respectively, as of December 31, 2011, and 1.2% and 0.5% of our revenues and net income, respectively for the

year ended December 31, 2011. No material changes in our internal control over financial reporting were identified as a result of these mergers.



(c) **Attestation Report of the Registered Public Accounting Firm**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF

Coca-Cola FEMSA, S.A.B. DE C.V.:

We have audited Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission (the COSO criteria). Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20F. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20F, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Administradora de Acciones del Noroeste, S.A. de C.V. and its subsidiaries (collectively "Grupo Tampico") and Corporación de los Angeles, S.A. de C.V. and its subsidiaries (collectively "Grupo CIMSA"), both subsidiaries in Mexico, acquired in October and December 2011, respectively, which are included in the 2011 consolidated financial statements of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries, and constituted 4.3% and 5.2% of total and net assets, respectively, as of December 31, 2011 and 1.2% and 0.5% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries, also did not include an evaluation of the internal control over financial reporting of Grupo Tampico and Grupo CIMSA.

In our opinion, Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated April 25, 2012 expressed an unqualified opinion thereon.

Mancera, S.C.

A member practice of

Ernst & Young Global

/s/ Oscar Aguirre Hernandez

Oscar Aguirre Hernandez

Mexico City, Mexico

April 25, 2012



**(d) Changes in Internal Control Over Financial Reporting.**

There has been no change in our internal control over financial reporting during 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 16A. Audit Committee Financial Expert**

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

**Item 16B. Code of Ethics**

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.coca-colafemsa.com](http://www.coca-colafemsa.com). If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address. In accordance with our code of ethics, we have developed a voice mailbox available to our employees to which complaints may be reported.

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

The following table summarizes the aggregate fees billed to us by Mancera, S.C. and other Ernst & Young practices (collectively, Ernst and Young) during the fiscal years ended December 31, 2011 and December 31, 2010:

	<b>Year ended December 31,</b>			
	<b>2011</b>		<b>2010</b>	
	<b>(millions of Mexican pesos)</b>			
Audit fees	Ps.	53	Ps.	41
Audit-related fees		4		3
Tax fees		5		1
Other fees		—		—
Total fees	Ps.	62	Ps.	45

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

**Audit-related Fees.** Audit-related fees in the above table are the aggregate fees billed by Ernst & Young for assurance and other services related to the performance of the audit, mainly in connection with special audits and reviews.



**Tax Fees.** Tax fees in the above table are fees billed by Ernst & Young for services based upon existing facts and prior transactions in order to assist us in documenting, computing and obtaining government approval for amounts included in tax filings such as value-added tax return assistance, transfer pricing documentation and requests for technical advice from taxing authorities.

**Other fees.** Other fees in the above table consulting related fees. For the years ended December 31, 2011 and 2010, there were no other fees.

### **Audit Committee Pre-Approval Policies and Procedures**

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

### **Item 16D. Not Applicable**

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

We did not directly purchase any of our equity securities in 2011. The following table presents purchases by trusts that FEMSA administers in connection with our bonus incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See **"Item 6. Directors, Senior Management and Employees—EVA-Based Bonus Program."**

#### **Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Series L shares Purchased by trusts that FEMSA administers in connection with our bonus incentive plans</b>	<b>Average Price Paid per Series L Share</b>	<b>Total Number of Shares Purchased as part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Appropriate U.S. Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
Jan. 5– Mar. 19	993,500	Ps. 76.15		
Total	993,500	Ps. 76.15		

### **Item 16F. Not Applicable**

### **Item 16G. Corporate Governance**

Pursuant to Rule 303A.11 of the Listed Company Manual of the New York Stock Exchange (NYSE), we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities

Market Law and the regulations issued by the CNBV. We also disclose the extent to which we comply with the *Código de Mejores Prácticas Corporativas* (Mexican Code of Best Corporate Practices), which was created by a group of Mexican business leaders and was endorsed by the BMV.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

**NYSE Standards**

**Directors Independence:** A majority of the board of directors must be independent. There is an exemption for “controlled companies” (companies in which more than 50% of the voting power is held by an individual, group or another company rather than the public), which would include our company if we were a U.S. issuer.

**Executive sessions:** Non-management directors must meet at regularly scheduled executive sessions without management.

**Nominating/Corporate Governance**

**Committee:** A nominating/corporate governance committee composed entirely of independent directors is required. As a “controlled company,” we would be exempt from this requirement if we were a U.S. issuer.

**Compensation committee:** A compensation committee composed entirely of independent directors is required. As a “controlled company,”

**Our Corporate Governance Practices**

**Directors Independence:** Pursuant to the Mexican Securities Market Law, we are required to have a board of directors with a maximum of 21 members, 25% of whom must be independent.

The Mexican Securities Market Law sets forth, in article 26, the definition of “independence,” which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Market Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Market Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

**Executive sessions:** Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.

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

**Nominating/Corporate Governance Committee:** We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee. Our Corporate Practices Committee is composed of three members, and as required by the Mexican Securities Market Law and our bylaws, the three members are independent.

**Compensation committee:** We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews



we would be exempt from this requirement if we were a U.S. issuer. and recommends management compensation programs in order to ensure that they are aligned with shareholders' interests and corporate performance.

**NYSE Standards**

**Audit committee:** Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

**Equity compensation plan:** Equity compensation plans require shareholder approval, subject to limited exemptions.

**Code of business conduct and ethics:** Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

**Our Corporate Governance Practices**

**Audit committee:** We have an Audit Committee of five members. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Market Law.

**Equity compensation plan:** Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives.

**Code of business conduct and ethics:** We have adopted a code of ethics that applies to our chief executive officer, chief financial officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at [www.coca-colafemsa.com](http://www.coca-colafemsa.com). If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

**Item 16H. Not Applicable**

**Item 17. Not Applicable**

**Item 18. Financial Statements**

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

**Item 19. Exhibits**

(a) <u>List of Financial Statements</u>	Page
Report of Mancera S.C., A Member Practice of Ernst & Young Global	F-1
Consolidated Balance Sheets at December 31, 2011 and 2010	F-2
Consolidated Income Statements For the Years Ended December 31, 2011, 2010 and 2009	F-3
Consolidated Statement of Cash Flows For the Years Ended December 31, 2011, 2010 and 2009.	F-4
Consolidated Statements of Changes in Shareholders' Equity For the Years Ended December 31, 2011, 2010 and 2009	F-5
Notes to the Consolidated Financial Statements*	F-7

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

(b) List of Exhibits

**Exhibit No:**            **Description**

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- Exhibit 1.1 Amended and restated bylaws (*Estatutos Sociales*) of Coca-Cola FEMSA, S.A.B. de C.V., approved February 16, 2012 (English translation).
- Exhibit 2.1 Deposit Agreement, dated as of September 1, 1993, among Coca-Cola FEMSA, the Bank of New York, as Depositary, and Holders and Beneficial Owners of American Depository Receipts (incorporated by reference to Exhibit 3.5 to the Registration Statement of FEMSA on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- Exhibit 2.2 Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- Exhibit 2.3 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon and the Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- Exhibit 2.4 Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, S.A.B. de C.V., Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V., as Guarantor, and The Bank of New York Mellon (incorporated by reference to Exhibit 2.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 1-12260)).
- Exhibit 4.1 Amended and Restated Shareholders Agreement dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex, (incorporated by reference to Exhibit 4.13 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).

<b>Exhibit No:</b>	<b>Description</b>
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- Exhibit 4.2 Amendment, dated May 6, 2003, to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- Exhibit 4.3 Second Amendment, dated as of February 1, 2010, to the to the Amended and Restated Shareholders Agreement, dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company, Inmex and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- Exhibit 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- Exhibit 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- Exhibit 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- Exhibit 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- Exhibit 4.8 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- Exhibit 4.9 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajio, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajio, Mexico (English translation) (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- Exhibit 4.10 Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- Exhibit 4.11 Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).

<b>Exhibit No:</b>	<b>Description</b>
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- Exhibit 4.12 Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- Exhibit 4.13 Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- Exhibit 4.14 Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- Exhibit 4.15 Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- Exhibit 4.16 Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- Exhibit 4.17 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.40 to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- Exhibit 4.18 Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Exhibit 10.3 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.19 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.6 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.20 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Exhibit 10.7 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.21 Supply Agreement dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques, (incorporated by reference to Exhibit 10.7 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- Exhibit 4.22 Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).\*



<b>Exhibit No:</b>	<b>Description</b>
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- Exhibit 4.23 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- Exhibit 4.24 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajío S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.8 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.25 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 10.9 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 4.26 Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Exhibit 10.14 of Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- Exhibit 7.1 The Coca-Cola Company memorandum, to Steve Heyer from José Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA's Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).
- Exhibit 8.1 Significant Subsidiaries.
- Exhibit 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 25, 2012
- Exhibit 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 25, 2012.
- Exhibit 13.1 Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 25, 2012.

\* Portions of Exhibit 4.22 were omitted pursuant to a request for confidential treatment. Such omitted portions were filed separately with the Securities and Exchange Commission.

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

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Coca-Cola FEMSA, S.A.B. de C.V.  
By: /s/ Héctor Treviño Gutiérrez  
Héctor Treviño Gutiérrez  
Chief Financial Officer

Date: April 25, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of

Coca-Cola FEMSA, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheets of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and consolidated cash flows, for each of the three years in the period ended December 31, 2011, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from accounting principles generally accepted in the United States (See Notes 26 and 27 to the consolidated financial statements).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 25, 2012 expressed an unqualified opinion thereon.

Mancera, S.C.

A member practice of  
Ernst & Young Global

/s/ Oscar Aguirre Hernandez  
Oscar Aguirre Hernandez

Mexico City, Mexico  
April 25, 2012

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## Consolidated balance sheets

At December 31, 2011 and 2010.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

			2011		2010
<b>Assets</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$	883	Ps. 12,331	Ps.	12,534
Marketable securities (Note 4c)		24	330		—
Accounts receivable, net (Note 6)		619	8,634		6,363
Inventories, net (Note 7)		543	7,573		5,007
Recoverable taxes		110	1,529		1,658
Other current assets (Note 8)		120	1,677		874
Total current assets		2,299	32,074		26,436
Investment in shares (Note 9)		262	3,656		2,108
Property, plant and equipment, net (Note 10)		2,975	41,502		31,874
Intangible assets, net (Note 11)		5,066	70,675		51,213
Deferred tax asset (Note 23d)		32	451		345
Other assets, net (Note 12)		233	3,250		2,085
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>10,867</b>	<b>Ps. 151,608</b>	<b>Ps.</b>	<b>114,061</b>
<b>Liabilities and shareholders' equity</b>					
<b>Current Liabilities:</b>					
Bank loans and notes payable (Note 17)	\$	46	Ps. 638	Ps.	1,615
Current portion of long-term debt (Note 17)		351	4,902		225
Interest payable		15	206		151
Suppliers		850	11,852		8,988
Accounts payable		262	3,661		3,743
Taxes payable		200	2,785		1,931
Other current liabilities (Note 24a)		74	1,033		993
Total current liabilities		1,798	25,077		17,646
<b>Long-Term Liabilities:</b>					
Bank loans and notes payable (Note 17)		1,221	17,034		15,511
Labor liabilities (Note 15b)		110	1,537		1,210
Deferred tax liability (Note 23d)		250	3,485		1,901
Contingencies and other liabilities (Note 24b)		264	3,695		3,912
Total long-term liabilities		1,845	25,751		22,534
Total liabilities		3,643	50,828		40,180
<b>Shareholders' Equity:</b>					
Non-controlling interest in consolidated subsidiaries (Note 20)		221	3,089		2,602
Controlling interest:					

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Capital stock (Note 21)	228	3,178	3,116
Additional paid-in capital (Note 21)	2,146	29,936	13,239
Retained earnings from prior years (Note 21)	3,552	49,550	44,108
Net income (Note 21)	761	10,615	9,800
Cumulative other comprehensive income (Note 21)	316	4,412	1,016
Total controlling interest	7,003	97,691	71,279
Total shareholders' equity	7,224	100,780	73,881
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 10,867</b>	<b>Ps. 151,608</b>	<b>Ps. 114,061</b>

*The accompanying notes are an integral part of these consolidated balance sheets*

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## Consolidated income statements

For the years ended December 31, 2011, 2010 and 2009.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.), except for data per share.

	2011		2010		2009	
Net sales	\$ 8,893	Ps. 124,066	Ps. 102,988	Ps. 102,229		
Other operating revenues	47	649	468	538		
Total revenues	8,940	124,715	103,456	102,767		
Cost of goods sold	4,838	67,488	55,534	54,952		
Gross profit	4,102	57,227	47,922	47,815		
Operating expenses:						
Administrative	372	5,184	4,449	5,308		
Selling	2,285	31,891	26,394	26,672		
Operating expenses	2,657	37,075	30,843	31,980		
Income from operations	1,445	20,152	17,079	15,835		
Other expenses, net (Note 18)	167	2,326	1,292	1,449		
Comprehensive financing result:						
Interest expense	124	1,736	1,748	1,895		
Interest income	(43)	(601)	(285)	(286)		
Foreign exchange (gain) loss, net	(4)	(62)	423	370		
Gain on monetary position in inflationary subsidiaries	(11)	(155)	(414)	(488)		
Market value loss (gain) on ineffective portion of derivative financial instruments	10	140	(244)	(118)		
Comprehensive financing result	76	1,058	1,228	1,373		
Income before income taxes	1,202	16,768	14,559	13,013		
Income taxes (Note 23e)	401	5,599	4,260	4,043		
<b>Consolidated net income</b>	<b>\$ 801</b>	<b>Ps. 11,169</b>	<b>Ps. 10,299</b>	<b>Ps. 8,970</b>		
Controlling interest net income	\$ 761	Ps. 10,615	Ps. 9,800	Ps. 8,523		
Non-controlling interest net income	40	554	499	447		
<b>Consolidated net income</b>	<b>\$ 801</b>	<b>Ps. 11,169</b>	<b>Ps. 10,299</b>	<b>Ps. 8,970</b>		
<b>Net controlling income (U.S. dollars and Mexican pesos):</b>						
<b>Data per share</b>	<b>\$ 0.41</b>	<b>Ps. 5.69</b>	<b>Ps. 5.31</b>	<b>Ps. 4.62</b>		

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

## Consolidated statements of cash flows

For the years ended December 31, 2011, 2010 and 2009.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	2011		2010		2009
<b>Operating Activities:</b>					
Income before income taxes	\$ 1,202	Ps. 16,768	Ps. 14,559	Ps. 13,013	
Non-cash operating expenses	21	287	208	170	
Equity in earnings associated companies	(6)	(86)	(217)	(142)	
Unrealized gain on marketable securities	-	(4)	-	(112)	
Adjustments regarding investing activities:					
Depreciation	298	4,163	3,333	3,472	
Amortization	28	396	694	307	
Loss on sale of long-lived assets	7	98	231	186	
Disposal of long-lived assets	43	606	47	124	
Interest	(43)	(601)	(285)	(286)	
Adjustments regarding financing activities:					
Interest	116	1,616	1,579	1,850	
Foreign exchange (gain) loss, net	(4)	(62)	424	370	
Monetary position gain, net	(11)	(155)	(413)	(488)	
Derivative financial instruments loss (gain)	-	2	(468)	(318)	
	1,651	23,028	19,692	18,146	
Increase in accounts receivable	(118)	(1,640)	(1,092)	(394)	
(Increase) decrease in inventories	(128)	(1,782)	10	(90)	
Decrease (increase) in other assets	72	1,002	(562)	(153)	
(Decrease) increase in suppliers and other accounts payable	(21)	(301)	585	2,808	
Decrease in other liabilities	(15)	(205)	(209)	(424)	
Decrease in labor liabilities	(16)	(230)	(192)	(169)	
Income tax paid	(327)	(4,565)	(3,882)	(3,061)	
Net cash flows from operating activities	1,098	15,307	14,350	16,663	
<b>Investing Activities:</b>					
Acquisition of Grupo Tampico business (Note 5)	(173)	(2,414)	-	-	
Acquisition of Grupo CIMSA business (Note 5)	(137)	(1,912)	-	-	
Acquisition of Brisa business (Note 5)	-	-	-	(717)	
Purchases of investment available-for-sale	(23)	(326)	-	(2,001)	
Proceeds from investment available-for-sale	-	-	1,108	-	
Interest received	43	601	285	286	
Acquisition of long-lived assets	(526)	(7,344)	(6,845)	(5,883)	
Proceeds from the sale of long-lived assets	27	377	477	638	
Other assets	(111)	(1,546)	(545)	132	



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Investment in shares Grupo Estrella Azul (Note 9)	(45)	(620)	-	-
Intangible assets	(69)	(956)	(1,325)	(1,355)
<b>Net cash flows from investing activities</b>	<b>(1,014)</b>	<b>(14,140)</b>	<b>(6,845)</b>	<b>(8,900)</b>
<b>Net cash flows available for financing activities</b>	<b>84</b>	<b>1,167</b>	<b>7,505</b>	<b>7,763</b>

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**Financing Activities:**

Bank loans obtained	497	6,934	9,251	6,641
Bank loans repaid	(198)	(2,755)	(6,824)	(9,376)
Interest paid	(112)	(1,567)	(1,436)	(2,047)
Dividends paid	(313)	(4,366)	(2,612)	(1,344)
Acquisition of non-controlling interests	(8)	(114)	(282)	-
Other liabilities	(24)	(338)	(108)	97
<b>Net cash flows from financing activities</b>	<b>(158)</b>	<b>(2,206)</b>	<b>(2,011)</b>	<b>(6,029)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(74)</b>	<b>(1,039)</b>	<b>5,494</b>	<b>1,734</b>
<b>Translation and restatement effects</b>	<b>60</b>	<b>836</b>	<b>(801)</b>	<b>(476)</b>
<b>Initial balance of cash and cash equivalents</b>	<b>898</b>	<b>12,534</b>	<b>7,841</b>	<b>6,583</b>
<b>Ending balance of cash and cash equivalents</b>	<b>Ps. 884</b>	<b>Ps. 12,331</b>	<b>Ps. 12,534</b>	<b>Ps. 7,841</b>

*The accompanying notes are an integral part of these consolidated statements of cash flows.*

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## Consolidated statements of changes in shareholders' equity

For the years ended December 31, 2011, 2010 and 2009.

Amounts expressed in millions of Mexican pesos (Ps.).

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

		Capital Stock		Additional Paid-in Capital		Retained Earnings from Prior Years
Balances at December 31, 2008	Ps.	3,116	Ps.	13,220	Ps.	33,935
Transfer of prior year net income		—		—		5,598
Dividends declared (Note 21)		—		—		(1,344)
Comprehensive income		—		—		—
Balances at December 31, 2009		3,116		13,220		38,189
Transfer of prior year net income		—		—		8,523
Dividends declared (Note 21)		—		—		(2,604)
Acquisitions of non-controlling interest		—		19		—
Comprehensive income		—		—		—
Balances at December 31, 2010		3,116		13,239		44,108
Transfer of prior year net income		—		—		9,800
Dividends declared (Note 21)		—		—		(4,358)
Acquisitions of non-controlling interest		—		(86)		—
Acquisition of Grupo Tampico		28		7,799		—
Acquisition of Grupo CIMSA		34		8,984		—
Comprehensive income		—		—		—
<b>Balances at December 31, 2011</b>	<b>Ps.</b>	<b>3,178</b>	<b>Ps.</b>	<b>29,936</b>	<b>Ps.</b>	<b>49,550</b>

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	<b>Net</b>	<b>Cumulative</b>		<b>Total</b>	<b>Non-controlling</b>		<b>Total</b>		
	<b>Income</b>	<b>Other</b>		<b>Controlling</b>	<b>Interest in</b>		<b>shareholders'</b>		
		<b>Comprehensive</b>		<b>Interest</b>	<b>Consolidated</b>		<b>Equity</b>		
		<b>Income (Loss)</b>			<b>Subsidiaries</b>				
Ps.	5,598	Ps. 44	Ps.	55,913	Ps.	1,703	Ps.	57,616	
	(5,598)			—		—		—	
	—			(1,344)		—		(1,344)	
	8,523			11,607		593		12,200	
	8,523			66,176		2,296		68,472	
	(8,523)			—		—		—	
	—			(2,604)		—		(2,604)	
	—			19		(301)		(282)	
	9,800			7,688		607		8,295	
	9,800			71,279		2,602		73,881	
	(9,800)			—		—		—	
	—			(4,358)		(8)		(4,366)	
	—			(86)		(28)		(114)	
	—			7,827		1		7,828	
	—			9,018		—		9,018	
	10,615			14,011		522		14,533	
<b>Ps.</b>	<b>10,615</b>	<b>Ps.</b>	<b>4,412</b>	<b>Ps.</b>	<b>97,691</b>	<b>Ps.</b>	<b>3,089</b>	<b>Ps.</b>	<b>100,780</b>

*The accompanying notes are an integral part of these consolidated statements of changes in shareholder's equity*

## Notes to the consolidated financial statements

For the years ended December 31, 2011, 2010 and 2009.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

### Note 1. Activities of the Company.

Coca-Cola FEMSA, S.A.B. de C.V. ("Coca-Cola FEMSA" or "the Company") is a Mexican corporation, mainly engaged in acquiring, holding and transferring all types of bonds, capital stock, shares and marketable securities.

Coca-Cola FEMSA is indirectly owned by Fomento Economico Mexicano, S.A.B. de C.V. ("FEMSA"), which at December 31, 2011 holds 50% of its capital stock and 63% of its voting shares and The Coca-Cola Company ("TCCC"), which at December 31, 2011 indirectly owns 29.4% of its capital stock and 37% of the voting shares. The remaining 20.6% of Coca-Cola FEMSA's shares trade on the Bolsa Mexicana de Valores, S.A.B. de C.V. (BMV: KOFL) and 0.00002% is owned by other individuals. Its American Depositary Shares (ADS) trade on the New York Stock Exchange, Inc. (NYSE: KOF).

In February 2010, the Company's main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and the Company's bylaws were amended accordingly. The amendment related to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which now may be taken by the board of directors by simple majority voting.

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

As of December 31, 2011 and 2010, the most significant companies over which the Company exercises control are:

Company	Activity	Country	Ownership Percentage	
			2011	2010
Propimex, S.A. de C.V.	Manufacturing and distribution	Mexico	100.00%	100.00%
Controladora Interamericana de Bebidas, S.A. de C.V.	Holding	Mexico	100.00%	100.00%
Spal Industria Brasileira de Bebidas, S.A.	Manufacturing and distribution	Brazil	97.93%	97.71%
Coca-Cola Femsa de Venezuela, S.A.	Manufacturing and distribution	Venezuela	100.00%	100.00%

### Note 2. Basis of Presentation.

The consolidated financial statements include the financial statements of Coca-Cola FEMSA and those companies over which it exercises control. All intercompany account balances and transactions have been eliminated in consolidation process.

The accompanying consolidated financial statements were prepared in accordance with Mexican Financial Reporting Standards ("Mexican FRS"), individually referred to as "NIFs," and are stated in millions of Mexican pesos ("Ps."). The translation of Mexican pesos into U.S. dollars ("\$") is included solely for the convenience of the reader, using the noon buying exchange rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the U.S. Federal Reserve, Ps. 13.9510 per U.S. dollar as of December 31, 2011, the last day in 2011 for which information is available, according to the U.S. Federal Reserve Board.

The Company classifies its costs and expenses by function in the consolidated income statement, in order to conform to the industry practices where the Company operates. The income from operations line in the income statement is the result of subtracting cost of goods sold and operating expenses from total revenues and it has been included for a better understanding of the Company's financial and economic performance.

The accompanying consolidated financial statements and its notes were approved for issuance by the Company's Chief Executive Officer and Chief Financial and Administrative Officer on April 25, 2012 and subsequent events have been considered through that date (see Note 29).

On January 1, 2011, 2010 and 2009 several new NIF's came into effect. Such changes and their application are described as follows:

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**New NIF's adopted in 2011:**

**a) NIF B-5 "Financial Information by Segment"**

In 2011, the Company adopted NIF B-5 "Financial Information by Segment", which superseded Bulletin B-5. NIF B-5 establishes that an operating segment shall meet the following criteria: i) the segment engages in business activities from which it earns, or is in the process of obtaining revenues, and incurs related costs and expenses; ii) the operating results are reviewed regularly by entity's primary decision maker; and iii) specific financial information is available. NIF B-5 also requires disclosures related to operating segments subject to reporting, including details of earnings, assets and liabilities, reconciliations, information about products and services, and geographical areas. This pronouncement was applied retrospectively for comparative purposes, although it had no impact, on the key segment indicators already disclosed in Note 25.

**b) NIF B-9 "Interim Financial Reporting"**

The Company adopted NIF B-9 "Interim Financial Reporting", which prescribes the content to be included in a complete or condensed set of financial statements for an interim period. The adoption of NIF B-9 did not impact the Company's annual financial statements.

**c) NIF C-4 "Inventories"**

In 2011, the Company adopted NIF C-4 "Inventories", which replaces Mexican accounting Bulletin C-4, Inventories. NIF C-4, does not allow the use of direct costs as the inventory valuation method nor does it allow the use of the LIFO cost method. NIF C-4 establishes that inventories must be valued at the lower of acquisition cost or net realizable value. This standard also establishes that advances to suppliers for the acquisition of merchandise must be classified as inventories provided the risks and benefits of the inventories are transferred to the Company. The application of this standard did not impact the actual inventory valuation of the Company. NIF C-4 was applied retrospectively causing a reclassification between the advances to suppliers and inventory balances reported as of December 31, 2010 of Ps. 123. Similar reclassifications were made in the 2010 and 2009 consolidated statement of cash flows.

**d) NIF C-5 "Prepaid Expenses"**

In 2011, the Company adopted NIF C-5 "Prepaid Expenses", which replaced Mexican accounting Bulletin C-5, Prepaid Expenses. This standard establishes that the main characteristic of prepaid expenses is that they do not result in the transfer to the entity of the benefits and risks inherent to the goods or services to be received. Consequently, prepaid expenses must be recognized in the balance sheet as either current or non-current assets, depending on the item's classification in the statement of financial position. Moreover, NIF C-5 establishes that prepaid expenses made for goods or services whose inherent benefits and risks have already been transferred to the entity must be carried to the appropriate caption.

The accounting changes resulting from the adoption of this standard were recognized retrospectively, causing a reclassification between the "other current assets" caption (see Note 8) and "other assets" (see Note 12). They also resulted in reclassifications to prepaid expenses of Ps. 349 which were reclassified from "inventories" of Ps. 123, and property, plant, and equipment of Ps. 226, as of December 31, 2010. Similar reclassifications were made in the 2010 and 2009 consolidated statement of cash flows.

**e) NIF C-6, "Property, Plant and Equipment"**

In 2011, the Company adopted NIF C-6 "Property, Plant and Equipment", which replaced Mexican accounting Bulletin C-6, Property, Machinery and Equipment. This new standard was effective for fiscal years beginning on or after January 1, 2011. The component of the new standard related to the segregation of property, plant and equipment into separate components for those assets with different useful lives could optionally have been deferred until 2012, although this requirement has been applied by the Company since prior years and will not impact the consolidated financial statements.

In the case of asset exchanges, NIF C-6 requires entities to determine the commercial substance of the transaction, and the depreciation of all assets must be applied against the components of the assets, and the amount to be depreciated is the cost of acquisition less the asset's residual value. Moreover, NIF C-6 clarifies that regardless of whether the use or non-use of the asset is temporary or indefinite, it should not cease the depreciation charge. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. There are also specific disclosures for public entities such as: additions, disposals, depreciation, impairments, among others.

This standard was adopted and did not impact the Company's financial statements, except for reclassification to property, plant and equipment as of December 31, 2010 as a result of the presentation of prepaid expenses (see Note 2d) and additional disclosures, and the incremental disclosures presented in Note 10.

**f) NIF C-18, "Obligations related to retirement of property, plant and equipment"**

On January 1, 2011, the Company adopted NIF C-18, which establishes the accounting treatment for the initial and subsequent recognition of a liability for legal obligations related to the retirement of property, plant and equipment recognized as a result of the acquisition, construction, development and/or normal operation of such components.

This standard also establishes that an entity must initially recognize a provision for obligations related to retirement of property, plant and equipment based on its best estimate of the disbursements required to settle the present obligation at the time it is assumed, provided a reliable estimate can be made of the amount of the obligation. The best estimate of a provision for an obligation associated with the retirement of property, plant and equipment components should be determined using the expected present value method. The adoption of NIF C-18 did not impact the Company's financial statements.

**New NIF's adopted in 2010:**

**g) NIF C-1 "Cash and Cash Equivalents"**

In 2010, the Company adopted NIF C-1 "Cash and Cash Equivalents", which superseded Bulletin C-1 "Cash". NIF C-1 establishes that cash shall be measured at nominal value, and cash equivalents shall be measured at acquisition cost for initial recognition. Subsequently, cash equivalents should be measured according to its designation: precious metals shall be measured at fair value, foreign currencies shall be translated to the functional and reporting currency applying the closing exchange rate. Cash and cash equivalents are presented in the first line of assets, including restricted cash. This pronouncement was applied retrospectively, causing an increase in the cash balances reported as a result of the treatment of presentation of restricted cash, which was reclassified from "other current assets" for an amount of Ps.394 as of December 31, 2010 (see Note 4b).

**h) Interpretation to Mexican Financial Reporting Standards ("Interpretación a las Normas de Información Financiera" or INIF 19, "Accounting change as a result of IFRS adoption"):**

On September 30, 2010, the Consejo Mexicano de Normas de Información Financiera (CINIF) issued the INIF 19 "Accounting change as a result of International Financial Reporting Standards (IFRS) adoption." This INIF states disclosure requirements for: (a) financial statements based on Mexican FRS that were issued before IFRS adoption and (b) financial statements based on Mexican FRS that are issued within the IFRS period adoption. The adoption of this INIF resulted in additional disclosures regarding IFRS adoption, such as date of adoption, significant financial impact, significant changes in accounting policies, among others (see Note 28).

**New NIF's adopted in 2009:**

**i) NIF B-7, "Business Acquisitions":**

In 2009, the Company adopted NIF B-7 "Business Acquisitions", which is an amendment to the previous Bulletin B-7 "Business Acquisitions". NIF B-7 establishes general rules for recognizing the fair value of net assets of businesses acquired as well as the fair value of non-controlling interests, at the purchase date. This statement differs from the previous Bulletin B-7 in the following ways: a) to recognize all assets and liabilities acquired at their fair value, including the non-controlling interest based on the acquirer accounting policies, b) acquisition-related costs and restructuring expenses should not be part of the purchase price, and c) changes to tax amounts recorded in acquisitions must be recognized as part of the income tax provision. This pronouncement was applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

**j) NIF B-8, "Consolidated and Combined Financial Statements":**

In 2009, the Company adopted NIF B-8 "Consolidated or combined financial statements", which was issued in 2008, and amends Bulletin B-8 "Consolidated and combined financial statements and valuation of permanent share investments". NIF B-8 is similar to previous Bulletin B-8; however, this statement differs from the previous Bulletin B-8 in the following ways: a) defines control as the power to govern financial and operating policies, b) establishes that there are other facts, such as contractual agreements that have to be considered to determine whether an entity exercises control or not, c) defines "Specific-Purpose Entity" ("SPE"), as those entities that are created to achieve a specific purpose and are considered within the scope of this pronouncement, d) establishes new terms, such as "controlling interest" instead of "majority interest" and "non-controlling interest" instead "minority interest", and e) confirms that non-controlling interest must be assessed at fair value at the subsidiary acquisition date. NIF B-8 was applied prospectively beginning on January 1, 2009.

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**k) NIF C-7, "Investment in Associates and Other Permanent Investments":**

In 2009, the Company adopted NIF C-7 "Investment in Associates and Other Permanent Investments". NIF C-7 establishes general rules of accounting recognition for the investment in associates and other permanent investments not joint or fully controlled or significantly influenced by an entity. This pronouncement includes guidance to determine the existence of significant influence. Previous Bulletin B-8 "Consolidated and Combined Financial Statements and Valuation of Permanent Share Investments", defined that permanent share investments were accounted for using the equity method if the entity held 10% or more of its outstanding shares. NIF C-7 establishes that permanent share investments should be accounted by equity method if: a) an entity holds 10% or more of a public entity, b) an entity holds 25% or more of a private company, and c) an entity exercise significant influence over the investments of a company, as described in NIF C-7. As disclosed in Note 9, the Company owns certain privately held investments for which it owns less than 25% but still applies the equity method of accounting as it has determined that it exercises significant influence over those entities. Accordingly, the adoption of NIF C-7 did not have an impact on the Company's consolidated financial statements.

**l) NIF C-8, "Intangible Assets":**

In 2009, the Company adopted NIF C-8 "Intangible Assets" which is similar to previous Bulletin C-8 "Intangible Assets". NIF C-8, establishes the rules of valuation, presentation and disclosure for the initial and subsequent recognition of intangible assets that are acquired individually or through acquisition of an entity, or generated internally in the course of the entity's operations. This NIF considers intangible assets as nonmonetary items, broaden the criteria of identification to include not only if they are separable (asset could be sold, transferred or used by's the entity) but also whether they come from contractual or legal rights. NIF C-8 establishes that preoperative costs capitalized before this standard went into effect have to be accomplished with intangible assets characteristics, otherwise preoperative costs must be expensed as incurred. The adoption of NIF C-8 did not have an impact on the Company's consolidated financial statements.

**m) NIF D-8, "Share-Based Payments":**

In 2009, the Company adopted NIF D-8 "Share-Based Payments" which establishes the recognition of share-based payments. When an entity purchases goods or pays services with equity instruments, the NIF D-8 requires the entity to recognize those goods and services at fair value and the corresponding increase in equity. If an entity cannot determine the fair value of goods and services, it should determine it using an indirect method, based on fair value of the equity instruments. The adoption of NIF D-8 did not have an impact on the Company's consolidated financial statements.

**Adoption of IFRS**

The *Comisión Nacional Bancaria y de Valores* (Mexican National Banking and Securities Commission, or CNBV) announced that from 2012, all public companies listed in Mexico must report their financial information in accordance with International Financial Reporting Standards ("IFRS"). Since 2006, the CINIF (Mexican Board of Research and Development of Financial Reporting Standards) has been modifying Mexican Financial Reporting Standards in order to ensure their convergence with IFRS.

Coca-Cola FEMSA will adopt IFRS beginning in January 1, 2012 with a transition date to IFRS of January 1, 2011. The consolidated financial statements of the Company for 2012 will be presented in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The SEC has previously changed its rules to allow foreign private issuers that report under IFRS as issued by the IASB to not reconcile their financial statements to Generally Accepted Accounting Principles in the United States of America (U.S. GAAP).

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### Note 3. Incorporation of Foreign Subsidiaries.

The accounting records of foreign subsidiaries are maintained in the local currency and in accordance with the local accounting principles of each country. For incorporation into the Company's consolidated financial statements, each foreign subsidiary's individual financial statements are adjusted to Mexican FRS and beginning in 2008, they are restated into Mexican pesos, as described as follows:

- For inflationary economic environments- the inflation effects of the country of origin are recognized, and the financial statements are subsequently translated into Mexican pesos using the year-end exchange rate.
- For non-inflationary economic environments- assets and liabilities are translated into Mexican pesos using the period-end exchange rate, shareholders' equity is translated into Mexican pesos using the historical exchange rate, and the income statement is translated using the average exchange rate of each month.

#### Local Currencies to Mexican Pesos

Country	Functional / Recording Currency	Average Exchange Rate for			Exchange Rate as of December 31	
		2011	2010	2009	2011(1)	2010 (1)
Mexico	Mexican peso	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00
Guatemala	Quetzal	1.59	1.57	1.66	1.79	1.54
Costa Rica	Colon	0.02	0.02	0.02	0.03	0.02
Panama	U.S. dollar	12.43	12.64	13.52	13.98	12.36
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.55	0.59	0.67	0.61	0.56
Argentina	Argentine peso	3.01	3.23	3.63	3.25	3.11
Venezuela (2)	Bolivar	2.89	2.97	6.29	3.25	2.87
Brazil	Reais	7.42	7.18	6.83	7.45	7.42

(1) Year-end exchange rates used for translation of financial information.

(2) Equals 4.30 in 2010 (2.15 in 2009) bolivars per one U.S. dollar, translated to Mexican pesos applying the average exchange rate or period-end rate.

Variances in the net investment in foreign subsidiaries generated in the translation process are included in the cumulative translation adjustment, which is recorded in shareholders' equity as a cumulative other comprehensive income item.

Beginning in 2003, the government of Venezuela established a fixed exchange rate control of 2.15 bolivars per U.S. dollar. The Company has operated under exchange controls in Venezuela since 2003 that affect its ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price to us of raw materials purchased in local currency.

In January 2010, the Venezuelan government announced a devaluation of its official exchange rates and the establishment of a multiple exchange rate system which considers 2.60 bolivars to one U.S. dollar for high priority categories, 4.30 bolivars to one U.S. dollar for non-priority categories, and recognizes the existence of other exchange rates in which the government shall intervene. As a result of this devaluation, the balance sheet of the Company's Venezuelan subsidiary reflected a reduction in shareholders' equity of Ps. 3,700 million which was accounted for as a component of other comprehensive income (cumulative translation adjustment), in accordance with MFRS B-15 "Translation of Foreign Currencies", at the time of the devaluation in January 2010.

In December 2010, the Venezuelan Government authorities announced a change in the authorized exchange rates, by which the preferential rate of 2.60 bolivars to one U.S. dollar was eliminated.

Intercompany financing balances with foreign subsidiaries are considered as long-term investments, since there is no plan to pay down such financing in the foreseeable future. Monetary gain and losses and exchange gain and losses on these balances are recorded in shareholders' equity as part of the cumulative translation adjustment, which is presented as part of cumulative other comprehensive income.

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The translation of assets and liabilities denominated in foreign currencies into Mexican pesos is for consolidation purposes and does not indicate that the Company could realize or settle the reported value of those assets and liabilities in Mexican pesos. Additionally, this does not indicate that the Company could return or distribute the reported Mexican peso value equity to its shareholders.

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## Note 4. Significant Accounting Policies.

The Company's accounting policies are in accordance with Mexican FRS, which require that the Company's management use estimates and assumptions in valuing certain items included in the consolidated financial statements. The Company's management believes that the estimates and assumptions used were appropriate as of the date of these consolidated financial statements. However, actual results are dependent on the outcome of future events and uncertainties, which could materially affect the Company's real performance.

The significant accounting policies are as follows:

### a) Recognition of the Effects of Inflation in Countries with Inflationary Economic Environments:

The Company recognizes the effects of inflation on the financial information of its subsidiaries that operate in inflationary economic environments (when cumulative inflation of the three preceding years is 26% or more) using the comprehensive method, which consists of:

- Using inflation factors to restate non-monetary assets, such as inventories, fixed assets, intangible assets, including related costs and expenses when such assets are consumed or depreciated;
- Applying the appropriate inflation factors to restate capital stock, additional paid-in capital and retained earnings by the necessary amount to maintain the purchasing power equivalent in Mexican pesos on the dates such capital was contributed or income was generated up to the date of these consolidated financial statements are presented; and
- Including the monetary position gain or loss in the comprehensive financing result (see Note 4u).

The Company restates the financial information of its subsidiaries that operate in inflationary economic environments using the consumer price index of each country.

As of December 31, 2011, the operations of the Company are classified as follows considering the cumulative inflation of the three preceding years. The following classification also applies to 2010:

	Inflation 2011	Cumulative Inflation 2008-2010	Type of Economy
Mexico	3.8%	15.2%	Non-Inflationary
Guatemala	6.2%	15.0%	Non-Inflationary
Colombia	3.7%	13.3%	Non-Inflationary
Brazil	6.5%	17.4%	Non-Inflationary
Panama	6.3%	14.1%	Non-Inflationary
Venezuela	27.6%	108.2%	Inflationary
Nicaragua (1)	7.6%	25.4%	Inflationary
Costa Rica (1)	4.7%	25.4%	Inflationary
Argentina	9.5%	28.1%	Inflationary

(1) Costa Rica and Nicaragua have been considered inflationary economies in 2009, 2010 and 2011. While the cumulative inflation for 2008-2010 was less than 26%, inflationary trends in these countries continue to support this classification.

### b) Cash and Cash Equivalents

#### Cash and Cash Equivalents:

Cash consists of bank deposits. Cash equivalents consist principally of short-term bank deposits and highly liquid investments, for example those with purchased maturities of three months or less and are recorded at their acquisition cost plus interest income not yet received, which is similar to market prices. As of December 31, 2011, and 2010, cash equivalents were Ps. 8,773 and Ps. 9,938, respectively.

#### Restricted Cash:

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Additionally, as of December 31, 2011 and 2010, the Company has restricted cash as collateral against accounts payable in different currencies.

		<b>2011</b>		<b>2010</b>
Venezuelan bolivars	Ps.	324	Ps.	143
Brazilian reais		164		249
Argentinian Pesos		—		2
	Ps.	488	Ps.	394

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**c) Marketable Securities:**

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Marketable debt securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses and exchange rate fluctuation net of tax, reported in other comprehensive income. Interest and dividends on securities classified as available-for-sale are included in investment income. The fair values of the investments are readily available based on quoted market prices.

The following is a detail of available-for-sale securities:

December 31, 2011		Cost		Gross unrealized gain		Fair Value
Debt securities, USD denominated	Ps.	326	Ps.	4	Ps.	330

**d) Allowance for doubtful accounts**

Allowance for doubtful accounts is based on an evaluation of the aging of the receivable portfolio and the economic situation of the Company's clients, as well as the Company's historical loss rate on receivables and the economic environment in which the Company operates. The carrying value of accounts receivable approximates its fair value as of both December 31, 2011 and 2010.

**e) Inventories and Cost of Goods Sold:**

Inventories represent the acquisition or production cost which is incurred when purchasing or producing a product, and are valued using the average cost method. Inventories are measured at the lower of cost or net realizable value. Advances to suppliers of raw materials that do not transfer the risks and benefits to the Company are included as part of other current assets. Advances from prior years that met this feature have been reclassified from inventories to other current assets for comparison purposes.

Cost of goods sold is based on average cost of the inventories at the time of sale. Cost of goods sold includes expenses related to the purchase of raw materials used in the production process, as well as labor costs (wages and other benefits), depreciation of production facilities, equipment and other costs, including fuel, electricity, depreciation of returnable bottles during the production process, equipment maintenance, inspection and plant transfer costs.

**f) Other Current Assets:**

Other current assets are comprised of payments for goods and services whose inherent risks and benefits have not been transferred to the Company and that will be received over the next 12 months, the fair market value of derivative financial instruments with maturity dates of less than one year (see Note 4v), and long-lived assets available for sale that will be sold within the following year.

Prepaid expenses principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance expenses, and are recognized in the appropriate balance sheet or income statement caption when the risks and benefits have already been transferred to the Company and/or goods, services or benefits are received.

Prepaid advertising costs consist of television and radio advertising airtime paid in advance. These expenses are generally amortized over a 12-month period based on the transmission of the television and radio spots. The related production costs are recognized in income from operations as of the first date the advertising is broadcasted.

Promotional costs are expensed as incurred, except for those promotional costs related to the launching of new products or presentations before it is on the market. These costs are recorded as prepaid expenses and amortized over the period during which they are estimated to increase sales of the related products or container presentations to normal operating levels, which is generally no longer than one year.

**g) Investment in Shares:**

Investment in shares of associated companies over which the Company exercises significant influence are initially recorded at their acquisition cost and are subsequently accounted for using the equity method. Investment in affiliated companies over which the Company does not have significant influence are recorded at acquisition cost and restated using the consumer price index if that entity operates in an inflationary environment. The other investments in affiliated are valued at acquisition cost.

**h) Returnable and Non-Returnable Bottles:**

The Company has two types of bottles; returnable and non-returnable.

- Non-returnable: Are recorded in the results of operations at the time of product sale.
- Returnable: Are classified as long-lived assets as a component of property, plant and equipment.

Returnable bottles are recorded at acquisition cost for countries with inflationary economy then restated applying inflation factors as of the balance sheet date, according to NIF B-10.

- There are two types of returnable bottles:
- Those that are in the Company's control within its facilities, plants and distribution centers; and

Those that have been placed in the hands of customers, but still belong to the Company.

Depreciation of returnable bottles is computed using the straight-line method over acquisition cost. The Company estimates depreciation rates considering their estimated useful lives.

Returnable bottles that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which the Company retains ownership. These bottles are monitored by sales personnel during periodic visits to retailers and the Company has the right to charge any breakage identified to the retailer. Bottles that are not subject to such agreements are expensed when placed in the hands of retailers.

The Company's returnable bottles in the market and for which a deposit from customers has been received are presented net of such deposits, and the difference between the cost of these assets and the deposits received is depreciated according to their useful lives.

**i) Property, Plant and Equipment, net:**

Property, plant and equipment are initially recorded at their cost of acquisition and/or construction. The comprehensive financing result related to the acquisition or construction of qualifying asset is capitalized as part of the cost of that asset.

Major maintenance costs are capitalized as part of total acquisition cost. Routine maintenance and repair costs are expensed as incurred.

Investments in progress consist of long-lived assets not yet in service, in other words, that are not yet used for the purpose that they were bought, built or developed. The Company expects to complete those investments during the following 12 months.

Depreciation is computed using the straight-line method over acquisition cost. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets.

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

	<b>Years</b>
Buildings and construction	40–50
Machinery and equipment	10–20
Distribution equipment	7–15
Refrigeration equipment	5–7
Returnable bottles	1.5–4
Other equipment	3–10

**j) Other Assets:**

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

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- Agreements with customers for the right to sell and promote the Company's products over a certain period. The majority of the agreements have terms of more than one year, and the related costs are amortized using the straight-line method over the term of the contract, with the amortization presented as a reduction of net sales. During the years ended December 31, 2011, 2010 and 2009, such amortization aggregated to Ps. 803, Ps. 553 and Ps. 604, respectively. The costs of agreements with terms of less than one year are recorded as a reduction in net sales when incurred.

- Leasehold improvements are amortized using the straight-line method over the shorter of either the useful life of the assets or the related lease term. In countries considered inflationary, these assets are restated for inflation. The amortization of leasehold improvements for the years ended December 31, 2011, 2010 and 2009 was Ps. 18, Ps. 19 and Ps. 20, respectively.

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**k) Leases:**

Building and equipment leases are capitalized if: i) the contract transfers ownership of the leased asset to the lessee at the end of the lease, ii) the contract contains an option to purchase the asset at a reduced price, iii) the lease period is substantially equal to the remaining useful life of the leased asset (75% or more) or iv) the present value of future minimum payments at the inception of the lease is substantially equal to the market value of the leased asset, net of any residual value (90% or more).

When the inherent risks and benefits of a leased asset remains substantially with the lessor, leases are classified as operating and rent is charged to results of operations as incurred.

**l) Intangible Assets:**

Intangible assets represent payments whose benefits will be received in future years. These assets are classified as either intangible assets with defined useful lives or intangible assets with indefinite useful lives, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with defined useful lives are amortized and mainly consist of:

- Information technology and management system costs incurred during the development stage which are currently in use. Such amounts are capitalized and then amortized using the straight-line method over seven years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.
- Other computer system costs in the development stage, that are not yet in use. Such amounts are capitalized as they are expected to add value such as income or cost savings in the future. Such amounts will be amortized on a straight-line basis over their estimated economic life after they are placed into service.

Intangible assets with indefinite life are not amortized and are subject to impairment tests on an annual basis or more frequently if deemed necessary. These assets are recorded in the functional currency of the subsidiary in which the investment was made and are subsequently translated into Mexican pesos using the closing exchange rate of each period. In countries with inflationary economic environments intangible assets are restated by applying inflation factors of the country of origin and are translated into Mexican pesos at the year-end exchange rate.

The Company's intangible assets with indefinite life mainly consist of rights to produce and distribute Coca-Cola trademark products in the Company's territories. Intangible assets with indefinite life also include goodwill. Distribution rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers. In Mexico, the Company has seven bottler agreements; the agreements for two territories expire in June 2013, for other two territories expire in May 2015 and, additionally, three contracts that arose from the acquisition of Grupo Tampico and Grupo CIMSA businesses, which expire in September 2014, April 2016 and July 2016. The Company's bottler agreements with The Coca-Cola Company will expire for our territories in the following countries: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014. All of the Company's bottler agreements are renewable for ten-year terms. These bottler agreements are automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew the agreement. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent the Company from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on the Company's business, financial conditions, results from operations and prospects.

Goodwill represents the excess of the acquisition cost over the fair value of identifiable net assets of the territory on the acquisition date. It equates to synergies both existing in the acquired operations and those further expected to be realized upon integration. Goodwill recognized separately is tested annually for impairment and is carried at cost, less accumulated impairment losses. Gains and losses on the sale of an entity include the carrying amount of the goodwill related to that entity. Goodwill is allocated to cash-generating units (CGU) in order to test for impairment losses. The allocation is made to CGUs that are expected to benefit from the business combination that generated the goodwill.

**m) Impairment of Long-Lived Assets:**

Depreciated tangible long-lived assets, such as property, plant and equipment are reviewed for impairment whenever certain circumstances indicate that the carrying amount of those tangible long-lived assets exceeds its recoverable value.

Amortized intangible assets, such as definite lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through its expected future cash flows.

For assets with indefinite useful lives, such as distribution rights, the Company tests for impairment on an annual basis as well as whenever certain circumstances indicate that the carrying amount of those intangible assets exceeds its recoverable value.

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These evaluations are performed by comparing the carrying value of the assets with its recoverable amount. The recoverable amount is calculated using various recognized methodologies, primarily an evaluation of expected future cash flows.

For the years ended December 31, 2011, 2010 and 2009, the Company has not recorded any impairment related to its long-lived assets.

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**n) Payments from The Coca-Cola Company:**

The Coca-Cola Company participates in certain advertising and promotional programs as well as in the Company's refrigeration equipment and returnable bottles investment program. Contributions received by the Company for advertising and promotional incentives are recognized as a reduction in selling expenses and contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction in the investment in refrigeration equipment and returnable bottles items. Contributions received were Ps. 2,561, Ps. 2,386 and Ps. 1,945; during the years ended December 31, 2011, 2010 and 2009, respectively.

**o) Labor Liabilities:**

Labor liabilities include obligations for pension and retirement plans, seniority premiums and severance indemnity liabilities other than restructuring, all based on actuarial calculations, and are computed using the projected unit credit method.

Costs related to compensated absences, such as vacations and vacation premiums, are accrued on a cumulative basis, for which an accrual is made.

Labor liabilities are considered to be non-monetary and are determined using long-term assumptions. The yearly cost of labor liabilities is charged to income from operations and labor cost of past services is recorded as expenses over the remaining working life period of the employees during which they will receive the benefits of the plan.

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

**p) Contingencies:**

The Company recognizes a liability for a loss contingency when it is probable (i.e. the probability that the event will occur is greater than the probability that it will not) that certain effects related to past events, would materialize and can be reasonably quantified. These events and their financial impact are also disclosed as loss contingencies in the consolidated financial statements when the risk of loss is deemed to be other than remote. The Company does not recognize an asset for a gain contingency until the gain is realized. In connection with certain past business combinations, the Company has been indemnified by the sellers related to certain contingencies.

**q) Revenue Recognition:**

Sales of products are recognized as revenue upon delivery to the customer, and once the customer has taken ownership of the goods. Net sales reflect units delivered at list prices reduced by promotional allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the Company's products.

During 2007 and 2008, the Company sold certain of its private label brands to The Coca-Cola Company. Because the Company has significant continuing involvement with these brands, proceeds received from The Coca-Cola Company were initially deferred and are being amortized against the related costs of future product sales over the estimated period of such sales. The balance of unearned revenues as of December 31, 2011 and 2010 amounted to Ps. 302 and Ps. 547, respectively. The short-term portions of such amounts are presented as other current liabilities, amounted Ps. 197 and Ps. 276 at December 31, 2011 and 2010, respectively.

**r) Operating Expenses:**

Operating expenses are comprised of administrative and selling expenses. Administrative expenses include labor costs (salaries and other benefits) of employees not directly involved in the sale of the Company's products, as well as professional service fees, the depreciation of office facilities and the amortization of capitalized information technology system implementation costs. Selling expenses include:

- Distribution: labor costs (salaries and other benefits), outbound freight costs, warehousing costs of finished products, depreciation of returnable bottles, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2011, 2010 and 2009, these distribution costs amounted to Ps. 15,125, Ps. 12,774 and Ps. 13,395, respectively;
  - Sales: labor costs (salaries and other benefits) and sales commissions paid to sales personnel;
  - Marketing: labor costs (salaries and other benefits), promotional expenses and advertising costs.
-

**s) Other Expenses:**

Other expenses include Employee Profit Sharing ("PTU"), equity interest in affiliated companies, gains or losses on sales of fixed assets and contingencies reserves as well as their related subsequent interest and penalties, severance payments from restructuring programs and all other non-recurring expenses related to activities that are different from the Company's main business activities and that are not recognized as part of the comprehensive financing result.

PTU is applicable to Mexico and Venezuela. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income, excluding the restatement of depreciation expense, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due and other effects of inflation are also excluded. In Venezuela, employee profit sharing is computed at 15% of taxable income, not in excess of four months of salary per employee. The Company has not recorded a provision for deferred employee profit sharing during any of the periods presented herein as the Company does not expect the relevant deferred items to materialize.

Severance payments resulting from restructuring programs and associated with an ongoing benefit arrangement are charged to other expenses on the date when it is decided to dismiss personnel under a formal program or for specific causes. These severance payments are included in other expenses (see Note 18).

**t) Income Taxes:**

Income taxes (including deferred income taxes) are charged to results of operations as they are incurred. For the purposes of recognizing the effects of deferred income taxes in the consolidated financial statements, the Company utilizes both retrospective and prospective analysis of taxable income over the medium term when more than one tax regime exists per jurisdiction. The Company then recognizes the tax expense amount based on the tax regime it expects to be subject to in the future.

Deferred income tax assets and liabilities are recognized for temporary differences resulting from the comparison of the book values and tax values of assets and liabilities (including any future benefits from tax loss carry-forwards). Deferred income taxes are recorded by applying the income tax rate enacted at the balance sheet date that will be in effect when the deferred tax assets and liabilities are expected to be recovered or settled. Deferred income tax assets are reduced by a valuation allowance when it is more likely than not that they will not be recovered.

The balance of deferred taxes is comprised of both monetary and non-monetary items, based on the temporary differences that gave rise to them. Deferred income taxes are classified as a long-term asset or liability, regardless of when the temporary differences are expected to reverse.

On January 1, 2010 an amendment to Mexican Tax Reform became effective. The most important effects in the Company are described as follows: the value added tax rate (IVA) increases from 15% to 16%; and income tax rate changes from 28% in 2009 to 30% for 2010, 2011 and 2012, and then in 2013 and 2014 will decrease to 29% and 28%, respectively.

**u) Comprehensive Financing Result:**

The comprehensive financing result includes interest, foreign exchange gain and losses, market value gain or loss on ineffective portion of derivative financial instruments and gain or loss on monetary position, except for those amounts capitalized and those that are recognized as part of the cumulative other comprehensive income, and are described as follows:

- Interest: Interest income and expenses are recorded when earned or incurred except for capitalized interest incurred on the financing of long-term assets;
- Foreign Exchange Gains and Losses: Transactions in foreign currencies are recorded in local currencies using the exchange rate applicable on the date they occur. Assets and liabilities in foreign currencies are adjusted to the year-end exchange rate, recording the resulting foreign exchange gain or loss directly in the income statement, except for the foreign exchange gains or losses arising on intercompany financing foreign currency denominated balances, which are considered to be of a long-term investment nature and the foreign exchange gains or losses on the financing of long-term assets (see Note 3);
- Market Value Gain or Loss on Ineffective Portion of Derivative Financial Instruments: this represents the net change in the fair value of the ineffective portion of derivative financial instruments and the net change in the fair value of embedded derivative financial instruments; and
- Monetary Position Gain or Loss: The gain or loss on monetary position is the result of changes in the general price level of monetary accounts of those subsidiaries that operate in inflationary environments. Monetary position gain or loss is calculated by applying inflation factors of the country of origin to the net monetary position at the beginning of each month, excluding the intercompany financing in foreign currency, which is considered to be a long-term investment because of its nature (see Note 3), and the monetary position gain or loss on long-term debt taken on to finance long-term assets.

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• During the year ended December 31, 2011, the Company capitalized Ps. 156 in comprehensive financing result. Capitalization of comprehensive financing result is based on a capitalization rate of 5.8%, applied to the long-term assets investments that require one year or more for the Company to ready the asset for its intended use. For the years ended December 31, 2010 and 2009, the Company capitalized Ps. 12 and Ps. 55, based on a capitalization rate of 5.3% and 7.2%, respectively.

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**v) Derivative Financial Instruments:**

The Company is exposed to different risks related to cash flows, liquidity, market and credit. As a result, the Company contracts different derivative financial instruments in order to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies, the risk of exchange rate and interest rate fluctuations associated with its borrowings denominated in foreign currencies and the exposure to the risk of fluctuation in the costs of certain U.S. dollar denominated raw materials.

The Company values and records all derivative financial instruments and hedging activities, including certain derivative financial instruments embedded in other contracts, in the balance sheet as either an asset or liability measured at fair value, considering quoted prices in recognized markets. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable market data, recognized in the financial sector. Changes in the fair value of derivative financial instruments are recorded each year in current earnings or as a component of cumulative other comprehensive income based on the item being hedged and the effectiveness of the hedge.

As of December 31, 2011 and 2010, the balance in other current assets of derivative financial instruments was Ps. 345 and Ps. 16 (see Note 8), and in other assets Ps. 1 at December 31, 2010 (see Note 12). The Company recognized liabilities regarding derivative financial instruments in other current liabilities of Ps. 8 and Ps. 19, at December 31, 2011 and 2010, respectively (see note 24a), and other liabilities of Ps. 424 and Ps. 498 as of the same dates (see note 24b).

The Company designates its financial instruments as cash flow hedges at the inception of the hedging relationship, when transactions meet all hedging accounting requirements. For cash flow hedges, the effective portion is recognized temporarily in cumulative other comprehensive income within shareholders' equity and subsequently reclassified to current earnings at the same time the hedged item is recorded in earnings. When derivative financial instruments do not meet all of the accounting requirements for hedging purposes, the change in fair value is immediately recognized in net income. For fair value hedges, the changes in the fair value are recorded in the consolidated results in the period the change occurs as part of the market value gain or loss on ineffective portion of derivative financial instruments.

The Company identifies embedded derivatives that should be segregated from the host contract for purposes of valuation and recognition. When an embedded derivative is identified and the host contract has not been stated at fair value the embedded derivative is segregated from the host contract, stated at fair value and is classified as trading. Changes in the fair value of the embedded derivatives at the closing of each period are recognized in the consolidated results.

**w) Cumulative Other Comprehensive Income:**

The cumulative other comprehensive income represents the period net income as described in NIF B-3 "Income Statement", plus the cumulative translation adjustment resulted from translation of foreign subsidiaries to Mexican pesos and the effect of unrealized gain/ loss on cash flow hedges from derivative financial instruments.

The cumulative balances of the Company's components of controlling other comprehensive income (loss), net of deferred income taxes (see Note 23d), are as follows:

		<b>2011</b>		<b>2010</b>
Cumulative translation adjustment (net of deferred income tax of Ps. 804 in 2011 and Ps. 134 in 2010)	Ps.	4,364	Ps.	1,000
Unrealized gain on marketable securities		4		-
Unrealized loss on cash flow hedges		44		16
	Ps.	4,412	Ps.	1,016

The changes in the cumulative translation adjustment balance were as follows:

		<b>2011</b>		<b>2010</b>		<b>2009</b>
Initial balance	Ps.	1,000	Ps.	3,055	Ps.	118
Translation effect		3,343		(2,078)		2,877
Foreign exchange effect from intercompany long-term loans		21		23		60
Ending balance	Ps.	4,364	Ps.	1,000	Ps.	3,055

**x) Issuance of Stock:**

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

**y) Earnings per Share:**

Earnings per share are computed by dividing net controlling income by the average weighted number of shares outstanding during the period.

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**z) Business Combinations:**

The Company has entered into certain acquisitions. These business combinations have been accounted for using the acquisition method of accounting which includes an allocation of the estimated fair value of the purchase price to the net assets acquired. The Company's financial statements are impacted by the manner in which the Company allocates the purchase price in a business combination. Assets that are considered to be depreciable in nature (such as the fair value of acquired property, plant and equipment) will reduce future operating results as they are depreciated. Conversely, goodwill, distribution rights, and certain other intangible assets are of a non-amortizing nature, therefore there is no prospective income statement impact presuming such amounts remain recoverable. The purchase price allocation includes the purchase price which is the fair value of securities issued and any contingent consideration. The valuation of the individual assets, in particular intangible assets related to assets such as distribution rights, etc., require the Company to make significant assumptions, and also require judgments and estimates. A change in any of these estimates or judgments could change the amount of the purchase price to be allocated to the particular asset or liability.

**Note 5. Acquisitions.**

The Company has made certain business acquisitions that were recorded using the purchase method. The results of the acquired the business, as disclosed below. Therefore, the consolidated income statements and the consolidated balance sheets in the years of such acquisitions are not comparable with previous periods. i) On October 10, 2011, the Company completed the acquisition of 100% of Administradora de Acciones del Noreste, S.A. de C.V. ("Grupo Tampico"), a bottler of Coca-Cola trademark products in the states of Tamaulipas, San Luis Potosí, and Veracruz, as well as in parts of the states of Hidalgo, Puebla and Queretaro. This acquisition was made so as to reinforce the Company's leadership position in Mexico and Latin America. The transaction involved: (i) the issuance of 63,500,000 shares of previously unissued Company L shares and (ii) the assumption of certain debt of Ps. 2,436, in exchange for 100% share ownership of Grupo Tampico, which was accomplished through a merger. The total purchase price was Ps. 10,264, based on a share price of Ps. 123.27 per share on October 10, 2011. Transaction related costs of Ps. 20 were expensed by the Company as incurred as required by Mexican FRS, and recorded as a component of administrative expenses in the accompanying consolidated statements of income. Grupo Tampico was included in operating results from October, 2011.

The Company's estimate of fair value of the Grupo Tampico's net assets acquired is as follows:

**Balance Sheet**

Total current assets, including cash acquired of Ps. 22	Ps.	461
Total non-current assets		2,529
Distribution rights		5,499
Total assets		8,489
Total liabilities		(804)
Net assets acquired		7,685
Goodwill		2,279
Total purchase price	Ps.	10,264

The condensed income statement of Grupo Tampico for the period from October to December, 2011 is as follows:

**Income Statement**

Total revenues	Ps.	1,056
Income from operations		117
Income before taxes		43
Net income		31



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ii) On December 9, 2011, the Company completed the acquisition of 100% of Corporación de los Angeles, S.A. de C.V. ("Grupo CIMSA") a bottler of Coca-Cola trademark products which operates mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacan, Mexico. This acquisition was also made so as to reinforce the Company's leadership position in Mexico and Latin America. The transaction involved the issuance of 75,423,728 shares of previously unissued Company L shares along with the cash payment prior to closing of Ps. 2,100 in exchange for 100% share ownership of Grupo CIMSA, which was accomplished through a merger. The total purchase price was Ps. 11,117 based on a share price of Ps. 119.55 per share on December 9, 2011. Transaction related costs of Ps. 24 were expensed by the Company as incurred as required by Mexican FRS, and recorded as a component of administrative expenses in the accompanying consolidated statements of income. Grupo CIMSA was included in operating results from December, 2011.

The Company's preliminary estimate of fair value of the Grupo CIMSA's net assets acquired is as follows:

### Balance Sheet

Total current assets, including cash acquired of Ps. 188	Ps.	737
Total non-current assets		2,802
Distribution rights		6,228
Total assets		9,767
Total liabilities		(586)
Net assets acquired		9,181
Goodwill		1,936
Total purchase price	Ps.	11,117

The Company's purchase price allocation is preliminary in nature in that its estimation of the fair value of property and equipment and distribution rights is pending receipt of final valuation reports by a third-party valuation experts. To date, only draft reports have been received.

The condensed income statement of Grupo CIMSA for December, 2011 is as follows:

### Income Statement

Total revenues	Ps.	429
Income from operations		60
Income before taxes		32
Net income		23

iii) In February 2009, the Company, along with The Coca-Cola Company, completed the acquisition of certain assets of the Brisa bottled water business in Colombia. This acquisition was made so as to strengthen the Company position in the local water business in Colombia. The Brisa bottled water business was previously owned by a subsidiary of SABMiller. The terms of the transaction called for an initial purchase price of \$92, of which \$46 was paid by the Company, and \$46 by The Coca-Cola Company. The Brisa brand and certain other intangible assets were acquired by The Coca-Cola Company, while production related property and equipment and inventory was acquired by the Company. The Company also acquired the distribution rights over Brisa products in its Colombian territory. In addition to the initial purchase price, contingent purchase consideration also existed related to the net revenues of the Brisa bottled water business subsequent to the acquisition. The total purchase price incurred by the Company was Ps. 730, consisting of Ps. 717 in cash payments, and accrued liabilities of Ps. 13. Transaction related costs were expensed by the Company as incurred as required by Mexican FRS. Following a transition period, Brisa was included in operating results beginning June 1, 2009.

The estimated fair value of the Brisa net assets acquired by the Company is as follows:

Production related property and equipment, at fair value	Ps.	95
Distribution rights, at relative fair value, with an indefinite life		635
Net assets acquired / purchase price	Ps.	730

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The results of operation of Brisa for the period from the acquisition through December 31, 2009 were not material to the Company's consolidated results of operations.

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iv) Unaudited Pro Forma Financial Data.

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Grupo Tampico and Grupo CIMSA mentioned in the preceding paragraphs; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired companies.

The unaudited pro forma adjustments assume that the acquisitions were made at the beginning of the year immediately preceding the year of acquisition and are based upon available information and other assumptions that management considers reasonable. The pro forma financial information data does not purport to represent what the effect on the Company's consolidated operations would have been, had the transactions in fact occurred at the beginning of each year, nor are they intended to predict the Company's future results of operations.

	<b>Unaudited pro forma consolidated financial data for the period January 1 - December 31,</b>			
		<b>2011</b>		<b>2010</b>
Total revenues	Ps.	132,552	Ps.	111,710
Income before taxes		17,866		15,454
Net income	Ps.	12,019	Ps.	10,968
Earnings per share	Ps.	6.15	Ps.	5.67

Brisa business is not included for this pro forma consolidated financial data since it was acquired in 2009.

## Note 6. Accounts Receivable, net.

		<b>2011</b>		<b>2010</b>
Trade receivables	Ps.	6,533	Ps.	4,616
Short-term trade customer notes receivable		74		232
Allowance for doubtful accounts		(298)		(223)
The Coca-Cola Company (related party) (Note 13)		1,157		1,030
FEMSA and subsidiaries (Note 13)		314		161
Other related parties (Note 13)		157		114
Other		697		433
	Ps.	8,634	Ps.	6,363

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

		<b>2011</b>		<b>2010</b>		<b>2009</b>
Opening balance	Ps.	223	Ps.	215	Ps.	185
Allowance for the year		153		113		78
Charges and write-offs of uncollectible accounts		(86)		(95)		(73)
Restatement of beginning balance in inflationary economies		8		(10)		25
Ending balance	Ps.	298	Ps.	223	Ps.	215

**Note 7. Inventories, net.**

		<b>2011</b>		<b>2010</b>
Finished products	Ps.	2,559	Ps.	1,732
Raw materials		2,835		2,032
Spare parts		626		596
Packing material		153		128
Inventories in transit		1,428		422
Allowance for obsolescence		(106)		(105)
Other		78		202
	Ps.	7,573	Ps.	5,007

**Note 8. Other Current Assets.**

		<b>2011</b>		<b>2010</b>
Prepaid expenses	Ps.	1,070	Ps.	528
Long-lived assets available for sale		25		123
Agreements with customers		194		90
Derivative financial instruments (Note 19)		345		16
Other		43		117
	Ps.	1,677	Ps.	874

Prepaid expenses as of December 31, 2011 and 2010 are as follows:

		<b>2011</b>		<b>2010</b>
Advances for inventories	Ps.	449	Ps.	124
Advertising and promotional expenses paid in advance		209		200
Advances to service suppliers		220		147
Prepaid insurance		47		20
Other		145		37
	Ps.	1,070	Ps.	528

Advertising and deferred promotional expenses recorded in the consolidated income statements for the years ended December 31, 2011, 2010 and 2009 amounted to Ps. 4,508, Ps. 3,979 and Ps. 3,278, respectively.

**Note 9. Investment in Shares.**

<b>Investee</b>	<b>Ownership%</b>		<b>2011</b>		<b>2010</b>
Industria Envasadora de Queretaro, S.A. de C.V. ("IEQSA") (1)(3)	19.2%	Ps.	100	Ps.	67
Jugos del Valle, S.A.P.I. de C.V. (1)(3)	24.0%		819		603
KSP Participações, LTDA (1)	38.7%		102		93
Sistema de Alimentos e Bebidas Do Brasil, LTDA (SABB) (1)(3)	19.7%		931		—
					<b>284</b>

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Sucos del Valle do Brasil, LTDA (1)(3)	19.9%	–	340
Mais Industria de Alimentos, LTDA (1)(3)	19.9%	–	474
Estancia Hidromineral Itabirito, LTDA (1)	50.0%	142	87
Holdfab2 Participações Societárias, LTDA (“Holdfab2”) (1)	27.7%	262	300
Industria Mexicana de Reciclaje, S.A. de C.V. (1)	35.0%	70	69
Beta San Miguel, S.A. de C.V. (“Beta San Miguel”) (2)	2.5%	69	69
Compañía Panameña de Bebidas, S.A.P.I., S.A. de C.V. (1)	50.0%	703	–
Dispensadoras de Café, S.A.P.I. de C.V. (1)	50.0%	161	–
Promotora Industrial Azucarera, S.A. de C.V. (2)	13.2%	281	–
Other	Various	16	6
		Ps. 3,656	Ps. 2,108

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**Accounting method:**

*(1) Equity method. The date of the financial statements of the investees used to account for the equity method is December 2011 and 2010.*

*(2) Lower of acquisition cost and estimated fair value.*

*(3) The Company has significant influence due to the fact that it has representation on the Board of Directors and the ability to influence operating decisions of the investee.*

In August 2010, the Company made an investment for approximately Ps. 295 (R\$ 40 million) in Holdfab2 representing 27.7%. Holdfab2 has a 50% investment in Leao Junior, a tea production company in Brazil.

During 2010, the shareholders of Jugos del Valle, including the Company, agreed to a restructuring which resulted in a spin-off the distribution rights to the various shareholders. This reorganization resulted in a decrease of the Company's investment in shares of Ps. 735 and an increase to in its intangible assets (distribution rights of a separate legal entity) for the same amount. During 2011, the Company increased its ownership percentage in Jugos del Valle from 19.8% to 24% as a result of the holdings of the acquired companies disclosed in Note 5.

On March 28, 2011 the Company made an initial investment for Ps. 620, together with The Coca-Cola Company in Compañía Panameña de Bebidas S.A.P.I. de C.V. (Grupo Estrella Azul), a Panamanian conglomerate in the dairy and juice-based beverage categories business in Panama. The investment represents 50% of ownership percentage.

During June 2011, a reorganization of the Brazilian investments occurred by way of a merger of the companies Sucos del Valle do Brasil, LTDA and Mais Industria de Alimentos, LTDA giving rise to a new company by the name of Sistema de Alimentos e Bebidas do Brasil, LTDA.

As mentioned in Note 5, on December 9, 2011, the Company completed the acquisition of 100% of Corporación de los Angeles, S.A. de C.V. ("Grupo CIMSA"). As part of the acquisition of Grupo CIMSA, the Company also acquired a 13.2% equity interest in Promotora Industrial Azucarera S.A de C.V.

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## Note 10. Property, Plant and Equipment, net

<b>2010</b>	<b>Land</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Refrigeration equipment</b>	<b>Construction in progress</b>	<b>real</b>
Balance at January 1, 2010	Ps. 3,661	Ps. 9,905	Ps. 30,564	Ps. 9,173	Ps. 2,364	Ps.
Purchases	—	196	1,091	977	3,454	
Transfer (to)/from assets classified as held for sale	(64)	7	20	—	—	
Disposals	(27)	(112)	(1,340)	(540)	—	
Effects of changes in foreign exchange rates	(269)	-	(5,093)	(730)	(496)	
Changes in value on the recognition of inflation effects	98	467	1,042	249	47	
Transfer of completed projects in progress	—	235	1,702	700	(3,046)	
Capitalization of comprehensive financing result	—	-	—	—	(33)	
Balance at December 31, 2010	Ps. 3,399	Ps. 10,698	Ps. 27,986	Ps. 9,829	Ps. 2,290	Ps.

<b>2011</b>	<b>Land</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Refrigeration equipment</b>	<b>Construction in progress</b>	<b>real</b>
Balance at January 1, 2011	Ps. 3,399	Ps. 10,698	Ps. 27,986	Ps. 9,829	Ps. 2,290	Ps.
Purchases	1	228	645	1,364	3,664	

Transfer (to)/from assets classified as held for sale	125	108	6	—	—
Disposals	(51)	(26)	(1,813)	(463)	—
Assets acquired in business combinations	597	1,103	2,309	314	202
Effects of changes in foreign exchange rates	183	-	1,686	481	107
Changes in value on the recognition of inflation effects	113	571	1,345	301	83
Transfer of completed projects in progress	23	244	2,281	380	(3,326)
Capitalization of comprehensive financing result	—	-	—	—	(14)
Balance at December 31, 2011	Ps. 4,390	Ps. 12,926	Ps. 34,445	Ps. 12,206	Ps. 3,006

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<b>Depreciation -2010</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Refrigeration equipment</b>	<b>Bottles</b>	<b>Others</b>	<b>Total</b>
Balance as at January 1, 2010	Ps. (3,045)	Ps. (18,141)	Ps. (6,016)	Ps. (171)	Ps. (195)	Ps. (27,568)
Transfer from assets classified as held for sale	-	64	-	-	-	64
Disposals	31	1,165	528	215	1	1,940
Depreciation for the period	(228)	(1,528)	(826)	(701)	(51)	(3,334)
Effects of changes in foreign exchange rates	-	3,233	642	56	85	4,016
Changes in value on the recognition of inflation effects	(224)	(533)	(177)	-	(15)	(949)
Balance at December 31, 2010	Ps. (3,466)	Ps. (15,740)	Ps. (5,849)	Ps. (601)	Ps. (175)	Ps. (25,831)

<b>Depreciation -2011</b>	<b>Buildings</b>	<b>Machinery and equipment</b>	<b>Refrigeration equipment</b>	<b>Bottles</b>	<b>Others</b>	<b>Total</b>
Balance as at January 1, 2011	Ps. (3,466)	Ps. (15,740)	Ps. (5,849)	Ps. (601)	Ps. (175)	Ps. (25,831)
Transfer to/(from) assets classified as held for sale	(46)	7	-	-	-	(39)
Disposals	1	1,704	206	201	64	2,176
Depreciation for the period	(267)	(1,882)	(1,080)	(894)	(56)	(4,179)
Effects of changes in foreign exchange rates	-	(936)	(340)	22	(18)	(1,272)
Changes in value on the recognition of inflation effects	(300)	(646)	(166)	-	(17)	(1,129)
Balance at December 31, 2011	Ps. (4,078)	Ps. (17,493)	Ps. (7,229)	Ps. (1,272)	Ps. (202)	Ps. (30,274)

<b>Carrying Amount</b>	<b>Assets Stated in Net Realizable Value</b>					<b>Bottles and Cases</b>	<b>Others</b>	<b>Total</b>	
	<b>Land</b>	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Refrigeration Equipment</b>	<b>Construction in progress</b>				
As at January 1, 2010	Ps. 3,661	Ps. 6,860	Ps. 12,423	Ps. 3,157	Ps. 2,364	Ps. 288	Ps. 1,858	Ps. 332	Ps. 30,943
As at December 31, 2010	3,399	7,232	12,246	3,980	2,290	189	2,253	285	31,874
As at December 31, 2011	4,390	8,848	16,952	4,977	3,006	78	2,868	383	41,502

The Company has identified certain long-lived assets that are not strategic to its current or future business and are not being used. Such assets are comprised of land, buildings and equipment, in accordance with an approved program for the disposal of certain investments. These longlived assets have been recorded at their estimated net realizable value without exceeding their acquisition cost and are presented in the property, plant and equipment caption, as shown below by location:

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		<b>2011</b>		<b>2010</b>
Brazil	Ps.	–	Ps.	33
Venezuela		55		96
Panama		17		37
Costa Rica		3		12
Nicaragua		3		9
Guatemala		–		2
	Ps.	78	Ps.	189
Land	Ps.	38	Ps.	100
Buildings, machinery and equipment		40		89
	Ps.	78	Ps.	189

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As a result of selling certain long-lived assets, the Company recognized losses (gains) of Ps. 5, Ps. 41 and Ps. (8), for the years ended December 31, 2011, 2010 and 2009, respectively.

The estimated total amount of the construction projects in process is Ps. 2,007, which is expected to be completed within a period not exceeding one year.

As mentioned in Note 4u), during the years ended December 31, 2011, 2010 and 2009 the Company capitalized Ps. (14), Ps. (33), and 13, respectively in comprehensive financing costs in relation to Ps. 256, Ps. 708 and Ps. 158 in qualifying assets. Amounts were capitalized assuming an annual capitalization rate of 5.8%, 5.3%, and 7.2%, respectively. For the years ended December 31, 2011, 2010 and 2009 the comprehensive financing result is analyzed as follows:

		2011		2010		2009
Comprehensive financing result	Ps.	1,214	Ps.	1,240	Ps.	1,428
Amount capitalized (1)		156		12		55
Net amount in income statements	Ps.	1,058	Ps.	1,228	Ps.	1,373

(1) Amount capitalized in property, plant and equipment and amortized intangible assets.

### Note 11. Intangible Assets, net.

		2011		2010
<b>Unamortized intangible assets:</b>				
Rights to produce and distribute Coca-Cola trademark products in the territories of (1):				
Mexico, Central America (2), Venezuela, Colombia and Brazil	Ps.	46,413	Ps.	44,157
Argentina, Buenos Aires		339		297
Mexico, Tapachula, Chiapas		132		132
Costa Rica, Compañía Latinoamericana de Bebidas		142		148
Argentina (CICAN)		16		14
Mexico (Agua de los Angeles)		18		18
Brazil (REMIL)		2,880		2,866
Colombia (Brisa) (Note 5)		786		705
Distribution rights of Jugos del Valle trademark products		886		735
Distribution rights of Mundet trademark beverages in Puebla, Mexico		97		97
Distribution rights of Grupo Tampico (Note 5)		5,499		—
Distribution rights of Grupo CIMSA (Note 5)		6,228		—
Goodwill from Grupo Tampico acquisition - Mexico (Note 5)		2,579		—
Goodwill from Grupo CIMSA acquisition - Mexico (Note 5)		1,936		—
Other		85		—
<b>Amortized intangible assets:</b>				
Systems in development costs		1,743		1,788
Cost of systems implementation, net		891		248
Other		5		8
	Ps.	70,675	Ps.	51,213

(1) Territories in the table above are grouped based upon their specific acquisition transaction. For example, production and distribution rights in Mexico, Central America, Venezuela, Colombia and Brazil were all purchased from Panamco in 2003 and thus presented together.

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

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

		<b>2011</b>		<b>2010</b>		<b>2009</b>
Beginning balance	Ps.	49,169	Ps.	49,520	Ps.	46,892
Acquisitions		16,478		832		695
Translation adjustment of foreign currency denominated intangible assets		2,389		(1,183)		1,933
Ending balance	Ps.	68,036	Ps.	49,169	Ps.	49,520

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

	Investments Accumulated at the Beginning the Year		Additions	Transfer to of completed projects	Amortization Accumulated at the Beginning of the Year	For the Year	Capitalization of comprehensive financing Result	Estimated Amortization Net	Per Year							
<b>2011</b>																
Systems in development costs	Ps.	1,788	Ps.	249	Ps.	(464)	Ps.	–	Ps.	170	Ps.	1,743	Ps.	–		
Cost of systems implementation, net		882		326		464		(634)		(147)		–		891	425	
Other		15		–		–		(7)		(3)		–		5	3	
<b>2010</b>																
Systems in development costs	Ps.	1,188	Ps.	706	Ps.	(151)	Ps.	–	Ps.	–	Ps.	45	Ps.	1,788	Ps.	–
Cost of systems implementation, net		694		37		151		(515)		(119)		–		248	306	
Other		15		–		–		(4)		(3)		–		8	3	
<b>2009</b>																
Systems in development costs	Ps.	333	Ps.	813	Ps.	–	Ps.	–	Ps.	–	Ps.	42	Ps.	1,188	Ps.	170
Cost of systems implementation, net		558		136		–		(344)		(171)		–		179	18	
Other		15		–		–		(1)		(3)		–		11	3	

As mentioned in Note 4u), during the years ended December 31, 2011, 2010 and 2009 the Company capitalized Ps. 170, Ps. 45 and Ps. 42, respectively in comprehensive financing costs in relation to Ps. 1,761, Ps. 1,221 and Ps. 687 in qualifying assets. Amounts were capitalized assuming an annual capitalization rate of 5.8%, 5.3%, and 7.2%, respectively and an estimated life of the qualifying assets of seven years.

The estimated amortization over the next five years of intangible assets with defined useful lives is as follows:

	2012	2013	2014	2015	2016					
Systems amortization	Ps.	425	Ps.	365	Ps.	333	Ps.	314	Ps.	285
Others		3		2		–		–		–

## Note 12. Other Assets.

	2011	2010		
Agreements with customers, net (Note 4j)	Ps.	256	Ps.	186
Leasehold improvements, net		309		267
Long-term notes receivable to Grupo Estrella Azul, due 2021 (Note 13)		785		–
Long-term accounts receivable		20		15
				293

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Derivative financial instruments (Note 19)	–	1
Loan fees, net	57	56
Long-term prepaid advertising expenses	113	125
Guarantee deposits	942	893
Advances for acquisitions of property, plant and equipment	296	226
Prepaid bonuses	97	84
Other	375	232
	Ps. 3,250	Ps. 2,085

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

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

<b>Balances</b>		<b>2011</b>		<b>2010</b>
Assets (short-term included in accounts receivable)				
FEMSA and subsidiaries	Ps.	314	Ps.	161
The Coca-Cola Company		1,157		1,030
Others		163		134
Grupo Estrella Azul		2		—
Assets (long-term included in other assets):				
Grupo Estrella Azul		785		—
	Ps.	2,421	Ps.	1,325
Liabilities (included in suppliers and other liabilities and loans)				
FEMSA and subsidiaries	Ps.	753	Ps.	603
The Coca-Cola Company		2,853		1,911
BBVA Bancomer, S.A. (1)		1,000		1,000
Banco Nacional de Mexico, S.A. (1)		—		500
Grupo Tampico		8		—
Grupo Estrella Azul		16		—
Other		704		388
	Ps.	5,334	Ps.	4,402

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Regarding the tax consolidation with FEMSA, the balance to be transferred to its holding is for the amount Ps. 150 at December 31, 2011 and is included in the taxes payable caption.

Balances due from related parties are considered to be recoverable. Accordingly, for the years ended December 31, 2011, 2010 and 2009, there was no expense resulting from the uncollectibility of balances due from related parties.

<b>Transactions</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Income:</b>			
Sales to affiliated parties	Ps. 2,186	Ps. 1,665	Ps. 1,300
<b>Expenses:</b>			
Purchases of raw material, beer, assets and operating expenses with FEMSA and subsidiaries	3,665	5,412	5,941
Purchases of concentrate from The Coca-Cola Company	21,183	19,371	16,863
Purchase of raw materials, beer and operating expenses with Heineken Group	3,343	2,619	—
Advertisement expenses refunded to The Coca-Cola Company	874	1,117	780
Purchases of sugar from Beta San Miguel	1,398	1,307	713
Purchase of sugar, cans and caps from Promotora Mexicana de Embotelladores, S.A. de C.V.	701	684	783
Purchases from Jugos del Valle, S.A.P.I. de C.V.	1,248	1,206	1,044
Purchase of canned products from IEQSA	262	196	208
Interest paid to The Coca-Cola Company	7	5	25
Purchase of plastic bottles from Embotelladora del Atlantico, S.A. (formerly Complejo Industrial Pet, S.A.)	61	52	54
Purchase of juice and milk powder from Grupo Estrella Azul	60	-	-
Interest expenses related to debt with BBVA Bancomer, S.A. (1)	51	52	65
Interest expenses related to debt with Banco Nacional de Mexico, S.A. (1)	6	26	33
Donations to Instituto Tecnologico y de Estudios Superiores de Monterrey, A.C. (1)	37	—	38
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. (1)	20	29	39
Purchases from affiliated companies of Grupo Tampico	175	—	—
Other expenses with related parties	40	16	17

(1) One or more members of the Board of Directors or senior management of the Company are also members of the Board of Directors or senior management of the counterparties to these transactions.

The benefits and aggregate compensation paid to executive officers and senior management of the Company were as follows:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Short- and long-term benefits paid	Ps. 743	Ps. 748	Ps. 762
Severance indemnities	10	31	41



## Note 14. Balances and Transactions in Foreign Currencies.

In accordance with NIF B-15, assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the recording, functional or reporting currency of each reporting unit. As of the end of December 31, 2011 and 2010, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos are as follows:

Balances	2011			2010		
	U.S. Dollars	Euros	Total	U.S. Dollars	Euros	Total
<b>Assets</b>						
Short-term	Ps. 5,167	Ps. –	Ps. 5,167	Ps. 7,154	Ps. –	Ps. 7,154
Long-term	785	–	785	20	–	20
<b>Liabilities</b>						
Short-term	1,964	41	2,005	1,250	245	1,495
Long-term	7,199	–	7,199	6,401	–	6,401
<b>Transactions</b>						
				2011	2010	2009
				U.S. Dollars	U.S. Dollars	U.S. Dollars
<b>Revenues</b>				Ps. 418	Ps. 429	Ps. 571
<b>Expenses:</b>						
Purchases of raw materials				Ps. 8,753	Ps. 5,197	Ps. 6,907
Interest expense				338	282	148
Assets acquisitions				226	258	173
Other				623	651	682
				Ps. 9,940	Ps. 6,388	Ps. 7,910

As of April 25, 2012, the issuance date of these consolidated financial statements, the exchange rate published by “Banco de México” was Ps. 13.2087 Mexican pesos per one U.S. Dollar, and the foreign currency position was similar to that as of December 31, 2011.

## Note 15. Labor Liabilities.

The Company has various labor liabilities in connection with pension, seniority and severance benefits. Benefits vary depending upon country.

### a) Assumptions:

The Company annually evaluates the reasonableness of the assumptions used in its labor liability computations. Actuarial calculations for the liability for pension and retirement plans, seniority premiums and severance indemnities, as well as the net cost of labor obligations for the period, were determined using the following long-term assumptions:

2011	2011	2010	2010	2009	2009
Real	Nominal	Real	Nominal	Real	Nominal
rates for	rates for	rates for	rates for	rates for	rates for
inflationary	noninflationary	inflationary	noninflationary	inflationary	noninflationary
countries	countries	countries	countries	countries	countries

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Annual discount rate	1.5%-2.2%	5.5%-9.7%	1.5% - 2.6%	5.5% - 9.7%	1.5% - 3.0%	6.5% - 9.8%
Salary increase	1.0%-1.5%	4.0%-6.5%	1.5%	4.0% - 6.5%	1.5%	4.5% - 8.0%
Estimated return on plan assets	0.5%	7.0%-9.7%	0.5%	7.0% - 11.2%	1.5% - 3.0%	8.2% - 9.8%

The long-term rate of return associated with the return on assets percentages shown above were determined based on an historical analysis of average returns in real terms for the last 30 years of Mexican Federal Government Treasury Bond (known as CETES in Mexico) and in the case of investments in foreign markets, the performance of the treasury bill of the country in question, as well as the expected long-term yields of the Company's current pension plan investment portfolio.

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Based on these assumptions, the amounts of benefits expected to be paid out in the following years are as follows:

	<b>Pension and Retirement Plans</b>		<b>Seniority Premiums</b>		<b>Severance Indemnities</b>	
2012	Ps.	194	Ps.	10	Ps.	108
2013		119		9		98
2014		98		10		94
2015		98		11		92
2016		95		11		88
2017 to 2021		640		71		415

**b) Balances of the Liabilities:**

		<b>2011</b>		<b>2010</b>
<b>Pension and retirement plans:</b>				
Vested benefit obligation	Ps.	586	Ps.	569
Non-vested benefit obligation		702		671
Accumulated benefit obligation		1,288		1,240
Projected benefit obligation		2,160		1,636
Pension plan funds at fair value		(1,068)		(774)
Unfunded projected benefit obligation		1,092		862
Unrecognized past services		(188)		(198)
Unamortized actuarial net loss		(5)		115
Total	Ps.	899	Ps.	779
<b>Seniority premiums:</b>				
Vested benefit obligation for personnel with more than 15 years seniority		7		7
Non-vested benefit obligation for personnel with less than 15 years seniority		81		57
Accumulated benefit obligation		88		64
Projected benefit obligation		167		94
Seniority premium funds at fair value		(19)		—
Unfunded projected benefit obligation		148		94
Unamortized actuarial net loss		(7)		(11)
Total	Ps.	141	Ps.	83
<b>Severance indemnities:</b>				
Accumulated benefit obligation		483		560
Projected benefit obligation		534		421
Unrecognized net transition obligation		(37)		(73)
Total	Ps.	497	Ps.	348

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Total labor liabilities	Ps.	1,537	Ps.	1,210
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Accumulated actuarial gains and losses are generated by differences in the assumptions used for the actuarial calculations at the beginning of the year versus the actual behavior of those variables at the end of the year.

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**c) Trust Assets:**

Trust assets consist of fixed and variable-return financial instruments recorded at market value. Trust assets are invested as follows:

Type of instrument	2011	2010
<b>Fixed Return:</b>		
Traded securities	2%	3%
Bank instruments	1%	3%
Federal government instruments of the respective countries	84%	76%
<b>Variable Return:</b>		
Publicly-traded shares	13%	18%
	100%	100%

The Company has a policy of maintaining at least 30% of trust assets in treasury bills and/or fixed income investment companies. Objective portfolio guidelines have been established for the remaining percentage, and investment decisions are made to comply with those guidelines to the extent that market conditions and available funds allow.

The amounts of securities of the Company and related parties included in plan assets are as follows:

	2011	2010
<b>Debt:</b>		
Grupo Industrial Bimbo, S.A.B. de C.V.	Ps. 2	Ps. 2
Grupo Televisa, S.A.B. de C.V.	3	-
Coca-Cola FEMSA, S.A.B. de C.V.	2	2
Grupo Financiero BBVA Bancomer, S.A.	17	-
Grupo Financiero Banorte, S.A.B. de C.V.	7	-
<b>Capital:</b>		
Fomento Económico Mexicano, S.A.B. de C.V.	1	-
Coca-Cola FEMSA, S.A.B. de C.V.	5	-

During the years ended December 31, 2011, 2010 and 2009, the Company did not make significant contributions to the plan assets and does not expect to make material contributions to the plan assets during the following fiscal year.

**d) Net Cost for the Year:**

	2011		2010		2009	
<b>Pension and retirement plans:</b>						
Service cost	Ps.	103	Ps.	85	Ps.	88
Interest cost		137		119		115
Expected return on trust assets		(83)		(60)		(51)
Amortization of prior year services		11		11		1
Amortization of actuarial loss		2		(3)		11
	Ps.	170	Ps.	152	Ps.	164
						301

**Seniority premiums:**

Service cost	Ps.	15	Ps.	11	Ps.	11
Interest cost		8		7		6
Amortization of net actuarial loss		2		3		—
	Ps.	25	Ps.	21	Ps.	17

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**Severance indemnities:**

Service cost	Ps.	59	Ps.	52	Ps.	47
Interest cost		26		23		26
Amortization of unrecognized transition obligation		38		36		36
Amortization of net actuarial loss		28		49		23
		151		160		132
	Ps.	346	Ps.	333	Ps.	313

**e) Changes in the Balance of the Obligations:**

				2011		2010
<b>Pension and retirement plans:</b>						
Initial balance			Ps.	1,636	Ps.	1,424
Service cost				103		85
Interest cost				137		119
Actuarial loss				61		102
Foreign exchange rate valuation loss (gain)				50		(3)
Benefits paid				(77)		(91)
Acquisitions				250		—
Ending balance			Ps.	2,160	Ps.	1,636
<b>Seniority premiums:</b>						
Initial balance			Ps.	94	Ps.	85
Service cost				15		11
Interest cost				8		6
Actuarial (gain) loss				(1)		3
Benefits paid				(11)		(11)
Acquisitions				62		—
Ending balance			Ps.	167	Ps.	94
<b>Severance indemnities:</b>						
Initial balance			Ps.	421	Ps.	426
Service cost				59		52
Interest cost				26		23
Actuarial loss				11		49
Benefits paid				(96)		(129)
Acquisitions				113		—
Ending balance			Ps.	534	Ps.	421

**f) Changes in the Balance of the Trust Assets:**

				2011		2010
<b>Pension and retirement plans:</b>						
						303
						303

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Initial balance	Ps.	774	Ps.	727
Actual return on trust assets		40		69
Foreign exchange rate valuation loss (gain)		5		(5)
Benefits paid		(12)		(17)
Acquisitions		229		—
Life annuities		32		—
Ending balance	Ps.	1,068	Ps.	774

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		2011		2010
<b>Seniority premiums:</b>				
Initial balance	Ps.	–	Ps.	–
Actual return on trust assets		(1)		–
Acquisitions		20		–
Ending balance	Ps.	19	Ps.	–

Following is presented the annual information relative to the different defined benefit obligations, for the year ended December 31, 2011 and the 4 preceding years:

		2011		2010		2009		2008		2007
<b>Pension and retirement plans at December 31:</b>										
Projected benefit obligation	Ps.	2,160	Ps.	1,636	Ps.	1,424	Ps.	1,351	Ps.	1,188
Pension plan funds at fair value		(1,068)		(774)		(727)		(517)		(566)
Unfunded projected benefit obligation	Ps.	1,092	Ps.	862	Ps.	697	Ps.	834	Ps.	622

		2011		2010		2009		2008		2007
<b>Seniority premiums at December 31:</b>										
Projected benefit obligation	Ps.	167	Ps.	94	Ps.	85	Ps.	79	Ps.	77
Seniority premium funds at fair value		(19)		–		–		–		–
Unfunded projected benefit obligation	Ps.	148	Ps.	94	Ps.	85	Ps.	79	Ps.	77

		2011		2010		2009		2008		2007
<b>Severance indemnities at December 31:</b>										
Projected benefit obligation	Ps.	534	Ps.	421	Ps.	426	Ps.	392	Ps.	308

## Note 16. Bonus Program.

The bonus program for executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives and special projects.

The quantitative objectives represent approximately 50% of the bonus, and are based on the Economic Value Added (“EVA”) methodology. The objective established for the executives at each entity is based on a combination of the EVA generated by the Company and FEMSA consolidated, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

In addition, the Company provides a defined contribution plan of share compensation to certain key executives, consisting of an annual cash bonus to purchase FEMSA and Coca-Cola FEMSA shares or options, based on the executive’s responsibility in the organization, their business’ EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 20% per year. The 50% of Coca-Cola FEMSA’s annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. As of December 31, 2011, 2010 and 2009, no options have been granted to employees.

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The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded to income from operations and are paid in cash the following year. During the years ended December 31, 2011, 2010 and 2009, the bonus expense recorded amounted to Ps. 599, Ps. 547 and Ps. 630, respectively.

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## Note 17. Bank Loans and Notes Payable.

At December 31, 2011

	2012	2013	2014	2015	2016	Thereafter	Carrying Value	December 31, 2010
<b>Short-term debt:</b>								
<b>Argentine pesos</b>								
Bank loans	Ps. 325	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 325	Ps. 507
Interest rate (1)	14.9%	—	—	—	—	—	14.9%	15.3%
<b>Colombian pesos</b>								
Bank loans	295	—	—	—	—	—	295	1,072
Interest rate (1)	6.8%	—	—	—	—	—	6.8%	4.4%
<b>Brazilian reais</b>								
Notes payable	—	—	—	—	—	—	—	36
Interest rate (1)	—	—	—	—	—	—	—	Various
<b>Mexican pesos</b>								
Bank loans	18	—	—	—	—	—	18	—
Interest rate (1)	6.9%	—	—	—	—	—	6.9%	—
Subtotal	Ps. 638	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 638	Ps. 1,615
<b>Long-term debt:</b>								
<b>Fixed rate debt:</b>								
<b>U.S. dollars</b>								
Senior Notes	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 6,990	Ps. 6,990	Ps. 6,179
Interest rate (1)	—	—	—	—	—	4.6%	4.6%	4.6%
Capital leases	—	—	—	—	—	—	—	4
Interest rate (1)	—	—	—	—	—	—	—	3.8%
<b>Mexican pesos</b>								
Domestic Senior Notes (Certificados Bursatiles) (2)	—	—	—	—	—	2,500	2,500	—
Interest rate (1)	—	—	—	—	—	8.3%	8.3%	—
<b>Argentine pesos</b>								
Bank loans	514	81	—	—	—	—	595	684
Interest rate (1)	16.4%	15.7%	—	—	—	—	16.4%	16.5%
<b>Brazilian reais</b>								
Notes payable	9	15	15	14	10	36	99	102
Interest rate (1)	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
<b>Variable rate debt:</b>								
<b>U.S. dollars</b>								
Bank loans	42	209	—	—	—	—	251	222

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Interest rate (1)	0.7%	0.7%	–	–	–	–	0.7%	0.6%
<b>Mexican pesos</b>								
Bank loans	67	266	1,392	2,825	–	–	4,550	4,550
Interest rate (1)	5.0%	5.0%	5.0%	5.0%	–	–	5.0%	5.1%
Domestic senior notes								
(Certificados bursatiles) (2)	3,000	–	–	–	2,500	–	5,500	3,000
Interest rate (1)	4.7%	–	–	–	4.9%	–	4.8%	4.8%
<b>Colombian pesos</b>								
Bank loans	1,140	181	–	–	–	–	1,321	994
Interest rate (1)	6.2%	6.6%	–	–	–	–	6.3%	4.7%

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**Argentine pesos**

Bank loans	130	–	–	–	–	–	130	–
Interest rate (1)	27.3%	–	–	–	–	–	27.3%	–

**Brazilian reais**

Notes payable	–	–	–	–	–	–	–	1
Interest rate (1)	–	–	–	–	–	–	–	Various

<b>Long term debt</b>	4,902	752	1,407	2,839	2,510	9,526	21,936	15,736
Current portion of long term debt	4,902	–	–	–	–	–	4,902	225

Total long term debt Ps. – Ps. 752 Ps. 1,407 Ps. 2,839 Ps. 2,510 Ps. 9,526 Ps. 17,034 Ps. 15,511

(1) Weighted average annual rate.

The Company has received financing from a number of institutional lenders. Such debt has different restrictions and covenants that mainly consist of maximum leverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all the restrictions and covenants contained in its financing agreements.

(2) At December 31, 2011, the Company has the following domestic senior notes (certificados bursatiles) issued in the Mexican stock exchange:

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

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

On February 5, 2010, the Company issued US \$500 in Senior Notes, bearing interest at a fixed rate of 4.625%. These Senior Notes are due on February 15, 2020.

On April 18, 2011, the Company issued Ps. 2,500 in Domestic Senior Notes, bearing interest at a fixed rate of 8.27%. These Domestic Senior Notes are due on April 5, 2021.

On April 18, 2011, the Company issued Ps. 2,500 in Domestic Senior Notes, bearing interest at a floating rate of TIIE + 13 bps. These Domestic Senior Notes are due on April 11, 2016.

As of December 31, 2011, out of KOF's total outstanding debt of Ps. 22,574 million, Ps. 19,791 was guaranteed by Propimex, the main operating subsidiary in Mexico, and all of the outstanding debt was unsecured.

## Note 18. Other Expenses.

	2011	2010	2009
Employee profit sharing (see Note 4s)	Ps. 1,060	Ps. 672	Ps. 792
Loss on sale of fixed assets	98	231	187
Provision for contingencies from past acquisitions	112	104	152
Brazil tax amnesty (see Note 23a)	–	(179)	(311)

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Severance payments from restructuring	217	470	113
Equity method in earnings associated companies	(86)	(217)	(142)
Vacation provision – Initial recognition	–	–	236
Loss on the retirement of long-lived assets	606	7	124
Other	319	204	298
Total	Ps. 2,326	Ps. 1,292	Ps. 1,449

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## Note 19. Fair Value of Financial Instruments.

The Company uses a three-level fair value hierarchy to prioritize the inputs used to measure the fair value of its financial instruments. The three input levels are described as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has access to at the measurement date.
- **Level 2:** inputs that are observable for the assets or liability, either directly or indirectly, but that are not the quoted prices included in level 1.
- **Level 3:** unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value when observable inputs are not available, which allows for fair value valuations even when there is little, if any, market activity for the asset or liability at the measurement date.

The Company measures the fair value of its financial assets and liabilities classified as level 2, using the income approach methodology, which estimates fair value based on expected cash flows discounted to net present value. The following table summarizes the Company's financial assets and liabilities measured at fair value as of December 31, 2011 and December 31, 2010:

	2011		2010	
	Level 1	Level 2	Level 1	Level 2
Pension plan trust assets (Note 15f)	Ps. 1,068	Ps. –	Ps. 774	Ps. –
Derivative financial instruments asset (Note 4v)	–	345	–	16
Derivative financial instruments (liability) (Note 4v)	–	(432)	–	(517)
Marketable securities (Note 4c)	330	–	–	–

The Company has no inputs classified as Level 3 for fair value measurement.

### a) Total Debt:

The fair value of bank and syndicated loans is calculated based on the discounted value of contractual cash flows whereby the discount rate is estimated using rates currently offered for debt of similar amounts and maturities. The fair value of notes is based on quoted market prices as of December 31.

	2011	2010
Carrying value	Ps. 22,574	Ps. 17,351
Fair value	23,290	17,350

### b) Interest Rate Swaps:

The Company uses interest rate swaps to offset the interest rate risk associated with its borrowings. Through these swaps the Company pays amounts based on a fixed rate and receives amounts based on a floating rate. These instruments have been designated as cash flow hedges and are recognized in the consolidated balance sheet at their estimated fair value. The fair value is estimated using market prices that would apply to terminate the contracts at the end of the period. Changes in fair value are recorded in cumulative other comprehensive income until such time as the hedged amount is recorded in earnings.

At December 31, 2011, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Liability
2012	Ps. 1,600	Ps. (12)

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2013	1,312	(43)
2014	575	(43)
2015 to 2018	1,963	(184)

The net effect of expired contracts treated as hedges is recognized as interest expense as part of the comprehensive financing result.

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**c) Forward Agreements to Purchase Foreign Currency:**

The Company has entered into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies.

These instruments are recognized in the consolidated balance sheet at their estimated fair value which is determined based on prevailing market exchange rates to end the contracts at the end of the period. Changes in the fair value of these forwards are recorded as part of cumulative other comprehensive income. Net gain/loss on expired contracts is recognized as part of foreign exchange or cost of goods sold, depending on the nature of the hedge.

At December 31, 2011, the Company had the following outstanding forwards agreements to purchase foreign currency:

<b>Maturity Date</b>	<b>Notional Amount</b>		<b>Fair Value Asset</b>	
2012	Ps.	1,161	Ps.	33

**d) Options to Purchase Foreign Currency:**

The Company has entered into a collar strategy to reduce its exposure to the risk of exchange rate fluctuations. A collar is a strategy that limits the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments are recognized in the consolidated balance sheet at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value are initially recorded as part of cumulative other comprehensive income. Changes in the fair value, corresponding to the extrinsic value are recorded in the income statement under the capture "market value gain/loss on the ineffective portion of derivative financial instruments", as part of the consolidated results. Net gain/loss on expired contracts is recognized as part of cost of goods sold.

At December 31, 2011, the Company had the following outstanding collars to purchase foreign currency (composed of a call and a put option with different strike levels with the same notional amount and maturity):

<b>Maturity Date</b>	<b>Notional Amount</b>		<b>Fair Value Asset</b>	
2012	Ps.	1,901	Ps.	300

**e) Cross-Currency Swaps:**

The Company has contracted a number of cross-currency swaps to reduce its exposure to exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars and other foreign currencies. These instruments are recognized in the consolidated balance sheet at their estimated fair value which is estimated using market prices that would apply to terminate the contracts at the end of the period. Those contracts do not meet the criteria for hedge accounting; consequently, changes in the fair value were recorded in the income statement under the caption "market value loss/gain on the ineffective portion of derivative financial instruments" as part of the consolidated results.

At December 31, 2011, the Company had the following outstanding cross currency swap agreements:

<b>Maturity Date</b>	<b>Notional Amount</b>		<b>Fair Value Liability</b>	
2012	Ps.	357	Ps.	(130)

**f) Commodity Price Contracts:**

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The Company has entered into various commodity price contracts to reduce its exposure to the risk of fluctuation in the price of certain raw materials. The fair value is estimated based on the market valuations to the end of the contracts at the closing date of the period. Changes in the fair value were recorded as part of cumulative other comprehensive income.

Net changes in the fair value of current and expired commodity price contracts were recorded as part of the cost of goods sold.

At December 31, 2011, the Company had the following commodity price contracts:

<b>Maturity Date</b>	<b>Notional Amount</b>	<b>Fair Value Liability</b>
2012	Ps. 427	Ps. (14)
2013	327	(5)

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**g) Embedded Derivative Financial Instruments:**

The Company has determined that its leasing contracts denominated in U.S. dollars host embedded derivative financial instruments. The fair value is estimated based on formal technical models. Changes in fair value of these instruments were recorded as part of the comprehensive financing result under the caption of "market value gain/loss on the ineffective portion of derivative financial instruments".

**h) Fair Value of Derivative Instruments that Met Hedging Criteria:****Derivatives designated as hedging instruments**

		2011		2010		2009
--	--	------	--	------	--	------

**Cash flow hedges:****Assets (Liabilities):**

Interest rate swaps	Ps.	(282)	Ps.	(263)	Ps.	(133)
Forward Agreements to Purchase Foreign Currency		33		(16)		–
Options to Purchase Foreign Currency		300		–		–
Commodity price contracts		(19) <sup>(1)</sup>		445 (1)		133 (1)

*(1) Commodity Price Contracts with maturity dates ending in 2012 and 2013.*

**i) Net Effects of Expired Contracts that Met Hedging Criteria:**

Types of derivatives	Impact in Income		2011	2010	2009		
	Statement						
Interest rate swaps	Interest expense	Ps.	120	Ps.	169	Ps.	46
Forward agreements to purchase foreign currency	Foreign exchange/Interest expense		–		27		–
Commodity price contracts	Cost of goods sold		(257)		(393)		(247)

**j) Net Effect of Changes in Fair Value of Derivative Financial Instruments that Did Not Meet the Hedging Criteria for Accounting****Purposes:**

Types of derivatives	Impact in Income		2011	2010	2009		
	Statement						
Options to purchase foreign currency	Market value gain/loss on	Ps.	(6)	Ps.	–	Ps.	–
Forward agreements to purchase foreign currency	ineffective portion of		–		–		63
Cross-currency swaps	derivative financial instruments		(95)		(256)		(220)

**k) Net Effect of Expired Contracts that Did Not Meet the Hedging Criteria for Accounting Purposes:**

Types of derivatives	Impact in Income		2011	2010	2009		
	Statement						
Embedded derivative financial instruments	Market value gain/loss on ineffective	Ps.	2	Ps.	(38)	Ps.	(12)
Cross-currency swaps	portion of derivative financial instruments		239		50		51

## Note 20. Non-controlling Interest in Consolidated Subsidiaries.

Coca-Cola FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2011 and 2010 is as follows:

		<b>2011</b>		<b>2010</b>
Mexico	Ps.	2,595	Ps.	2,147
Colombia		27		25
Brazil		467		430
	Ps.	3,089	Ps.	2,602

In October, 2011 the Company bought-out a non-controlling interest shareholder of its Brazil operations through a payment of Ps. 114.

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## Note 21. Shareholders' Equity.

As of December 31, 2011, the capital stock of Coca-Cola FEMSA is represented by 1,985,453,929 common shares, with no par value. Fixed capital stock is Ps. 821 (nominal value) and the rest is variable capital, which is unlimited.

The characteristics of the common shares are as follows:

- Series "A" and series "D" shares are ordinary, have unlimited voting rights, are subject to transfer restrictions, and at all times must represent a minimum of 75% of subscribed capital stock;
- Series "A" shares may only be acquired by Mexican individuals and may not represent less than 51% of the ordinary shares.
- Series "D" shares have no foreign ownership restrictions and may not represent more than 49% of the ordinary shares.
- Series "L" shares have no foreign ownership restrictions and have limited voting rights and other corporate rights.

As of December 31, 2011 and 2010, the number of each share series representing Coca-Cola FEMSA's capital stock is comprised as follows:

Series of shares	Thousands of Shares	
	2011	2010
"A"	992,078	992,078
"D"	583,546	583,546
"L"	409,830	270,906
Total	1,985,454	1,846,530

The restatement of shareholders' equity for inflation is allocated to each of the various shareholders' equity accounts, as follows:

	2011					
		Historical		Restatement		Restated
		Value	Restatement	Value		
Capital stock	Ps.	882	Ps.	2,296	Ps.	3,178
Additional paid-in capital		26,309		3,627		29,936
Retained earnings from prior years		42,404		7,146		49,550
Net controlling income		10,444		171		10,615
Cumulative other comprehensive income		4,412		—		4,412
2010						
		Historical		Restatement		Restated
		Value	Restatement	Value		
Capital stock	Ps.	821	Ps.	2,295	Ps.	3,116
Additional paid-in capital		9,612		3,627		13,239
Retained earnings from prior years		37,438		6,670		44,108
Net controlling income		9,324		476		9,800
Cumulative other comprehensive income		1,016		—		1,016

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The net income of the Company is not currently subject to the legal requirement that 5% thereof be transferred to a legal reserve, since such reserve already equals 20% of capital stock at nominal value. The legal reserve may not be distributed to shareholders during the life of the Company, except as a stock dividend. As of December 31, 2011 and 2010, the legal reserve is Ps. 164 (at nominal values).

Retained earnings and other reserves distributed as dividends, as well as the effects of capital reductions, are subject to income tax at the prevailing tax rate at the time of distribution, except for dividends and capital reductions paid from the Net taxes profits accounts ("CUFIN") which is where restated shareholder contributions and consolidated taxable income are recorded, or from the Net reinvested taxed profits account ("CUFINRE"), which is where reinvested consolidated taxable income is recorded.

Dividends paid in excess of the CUFIN and CUFINRE are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid or against the income tax and estimated tax payments of the following two years. As of December 31, 2011 and 2010, the Company's balance of CUFIN is Ps. 549 and Ps. 1,242, respectively.

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As of December 31, 2011, 2010 and 2009 the dividends declared by the Company are as follows:

<b>Series of shares</b>	<b>2011</b> <sup>(1)</sup>		<b>2010</b> <sup>(2)</sup>		<b>2009</b> <sup>(3)</sup>	
"A"	Ps.	2,341	Ps.	1,399	Ps.	722
"D"		1,377		823		425
"L"		640		382		197
Total	Ps.	4,358	Ps.	2,604	Ps.	1,344

(1) At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 23, 2011, the shareholders declared a dividend of Ps. 4,358 that was paid in April 2011.

(2) At an ordinary shareholders' meeting of Coca-Cola FEMSA held on April 14, 2010, the shareholders declared a dividend of Ps. 2,604 that was paid in April 2010.

(3) At an ordinary shareholders' meeting of Coca-Cola FEMSA held on March 23, 2009, the shareholders declared a dividend of Ps. 1,344 that was paid in April 2009.

## Note 22. Net Controlling Income per Share.

This represents the net controlling income on each share of the Company's capital stock and is computed on the basis of the weighted average number of shares outstanding during the period which was 1,865,342,044, 1,846,530,201 and 1,846,530,201 common shares for the years ended December 31, 2011, 2010 and 2009, respectively. During the periods presented herein, no common stock equivalents were outstanding.

## Note 23. Taxes.

### a) Income Tax:

Income tax is computed on taxable income, which differs from net income for accounting purposes principally due to differences in the book and tax treatment of the comprehensive financing result, the cost of labor liabilities, depreciation and other accounting provisions. The tax loss of a given year may be carried forward and applied against the taxable income of future years.

The difference between the sum of the above amounts and the consolidated income before income tax relates to dividends which are eliminated in the consolidated financial statement of the Company. Such dividends have been remitted on a tax-free basis.

The statutory income tax rates applicable in the countries where the Company operates, the number of years tax loss carry-forwards may be applied and the period open to review by the tax authorities as of December 31, 2011 are as follows:

	<b>Statutory Tax Rate</b>	<b>Expiration (Years)</b>	<b>Open Period (Years)</b>
Mexico	30%	10	5
Guatemala	31%	N/A	4
Nicaragua	30%	3	4
Costa Rica	30%	3	4
Panama	25%	5	3
Colombia	33%	Indefinite	2-5
Venezuela	34%	1-3	4-6
Brazil	34%	Indefinite	6
Argentina	35%	5	5

In Colombia, tax losses may be carried forward for an indefinite number of years and carry-forwards are limited to 25% of the taxable income of each year.

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In Brazil, tax losses never expire but they cannot be restated for inflation and are limited to 30% of the taxable income of each year.

During 2010 and 2009, Brazil adopted new laws providing for certain tax amnesties. The tax amnesty programs offer Brazilian legal entities and individuals an opportunity to pay off their income tax and indirect tax debts under less stringent conditions than would normally apply. The amnesty programs also include a favorable option under which taxpayers may utilize income tax loss carry-forwards ("NOLs") when settling certain outstanding income tax and indirect tax debts. The Company decided to participate in the amnesty programs allowing it to settle certain previously accrued indirect tax contingencies. During the year ended, December 31, 2010 the Company de-recognized indirect tax contingency accruals of Ps. 333 (see Note 24d), making payments of Ps. 118, recording a credit to other expenses of Ps. 179 (see Note 18), reversing previously recorded Brazil valuation allowances against NOL's in 2009, and recording certain taxes recoverable. During 2011, there were no tax amnesty programs applied by the Company.

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**b) Asset tax:**

On January 1, 2007, the asset tax in Mexico rate was reduced from 1.8% to 1.25% and the deduction of liabilities in the computation of the asset tax base was disallowed. Effective in 2008, the asset tax was abolished in Mexico and has been replaced by a flat rate business tax (Impuesto Empresarial a Tasa Unica, "IETU" - see Note 23c). Asset tax paid in periods prior to the introduction of the IETU can be credited against income tax payable in the period, provided that income tax exceeds IETU for the same period, and only up to an amount equal to 10% of the lesser asset tax paid for 2007, 2006 or 2005.

Guatemala, Nicaragua, Colombia and Argentina also have minimum taxes that are determined primarily on a percentage of assets. Under certain conditions, payments made for these minimum taxes are recoverable in future years.

**c) Flat-Rate Business Tax ("IETU"):**

Effective in 2008, IETU came into effect in Mexico and replaced the Asset Tax. IETU essentially works as a minimum corporate income tax, except that amounts paid cannot be creditable against future income tax payments. The payable tax for a taxpayer in a given year is the higher of IETU or income tax computed under the Mexican income tax law. Both individuals and corporations are subject to IETU as well as permanent establishments of foreign entities in Mexico. The IETU rate for 2008 and 2009 was 16.5% and 17.0%, respectively and is 17.5% beginning in 2010. IETU is computed on a cash-flow basis, which means the tax base is equal to cash proceeds, less certain deductions and credits. In the case of export sales, where cash on the receivable has not been collected within 12 months, income is deemed received at the end of the 12-month period. In addition, unlike the Income Tax Law, which allows for tax consolidation, companies that incur IETU are required to file their returns on an individual basis.

Based on its financial projections for purposes of its Mexican tax returns, the Company expects to pay corporate income tax in the future and does not expect to have IETU payable. This being the case, the introduction of the IETU law had no impact the Company's consolidated financial statements.

**d) Deferred Income Tax:**

An analysis of the temporary differences giving rise to deferred income tax liabilities (assets) is as follows:

<b>Deferred Income Taxes (asset) liability</b>		<b>2011</b>		<b>2010</b>
Inventories	Ps.	(58)	Ps.	26
Property, plant and equipment		1,898		1,519
Investment in shares		(10)		(7)
Intangibles and other assets		2,431		1,887
Labor obligations		(349)		(260)
Tax loss carry-forwards		(340)		(347)
Other deferred assets		(538)		(1,262)
Deferred income tax liability, net	Ps.	3,034	Ps.	1,556

<b>Deferred Income Taxes (asset) liability</b>		<b>2011</b>		<b>2010</b>
Deferred income tax asset recoverable	Ps.	(451)	Ps.	(345)
Deferred income tax payable		3,485		1,901
Deferred income tax liability, net	Ps.	3,034	Ps.	1,556

An analysis of changes in the balance of the net deferred income taxes liability is as follows:

		<b>2011</b>		<b>2010</b>		<b>2009</b>
Initial balance	Ps.	1,556	Ps.	1,640	Ps.	434
Provision for the year		(93)		481		267
Deferred income tax from business combinations		186		—		—

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Restatement effect in inflationary subsidiaries		40		244		453
Cumulative other comprehensive income (loss) items		1,345		(809)		486
Ending balance	Ps.	3,034	Ps.	1,556	Ps.	1,640

As of January 2008, in accordance with NIF B-10 in Mexico, the application of inflationary accounting in Mexico was suspended. However, for taxes purposes, the balance of fixed assets is restated based on the Mexican National Consumer Price Index (NCPI) and consequently, the difference between the book and tax values of the assets will gradually increase, giving rise to a deferred tax.

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e) **Provision for the Year:**

		<b>2011</b>		<b>2010</b>		<b>2009</b>
Current-year income tax	Ps.	5,692	Ps.	3,779	Ps.	3,776
Deferred income tax (benefit) expense		(74)		474		309
Effect of change in the statutory income tax rate		(19)		7		(42)
Income taxes	Ps.	5,599	Ps.	4,260	Ps.	4,043

An analysis of the domestic and foreign components of pre-tax income and income tax for the years ended December 31, 2011, 2010 and 2009 is as follows:

<b>2011</b>		<b>Mexico</b>		<b>Foreign</b>		<b>Total</b>
Income before income taxes	Ps.	5,968	Ps.	10,800	Ps.	16,768
Current-year income tax		2,009		3,683		5,692
Deferred income tax (benefit) expense		(219)		126		(93)
Total income tax	Ps.	1,790	Ps.	3,809	Ps.	5,599

<b>2010</b>		<b>Mexico</b>		<b>Foreign</b>		<b>Total</b>
Income before income taxes	Ps.	5,368	Ps.	9,191	Ps.	14,559
Current-year income tax		1,649		2,130		3,779
Deferred income tax (benefit) expense		(59)		540		481
Total income tax	Ps.	1,590	Ps.	2,670	Ps.	4,260

<b>2009</b>		<b>Mexico</b>		<b>Foreign</b>		<b>Total</b>
Income before income taxes	Ps.	5,579	Ps.	7,434	Ps.	13,013
Current-year income tax		1,585		2,191		3,776
Deferred income tax (benefit) expense		(16)		283		267
Total income tax	Ps.	1,569	Ps.	2,474	Ps.	4,043

f) **Tax Loss Carry-forwards and Recoverable Asset tax:**

The subsidiaries in Mexico, Panama, Colombia, Venezuela and Brazil have tax loss carry-forwards and/or recoverable tax on assets. The aggregate amounts of such future benefits and their years of expiration are as follows:

<b>Year of expired</b>		<b>Tax Loss</b>		<b>Recoverable</b>
		<b>Carry-forwards</b>		<b>Asset tax</b>
2017 and thereafter	Ps.	749	Ps.	41
No expiration (Brazil - see Note 23a)		342		-
	Ps.	1,091	Ps.	41

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An analysis of the changes in the valuation allowance that give rise to decreases in the related deferred tax asset is as follows:

		<b>2011</b>		<b>2010</b>		<b>2009</b>
Beginning balance	Ps.	–	Ps.	1	Ps.	45
Reversal of valuation allowance		–		–		(57)
Restatement of beginning balance in inflationary subsidiaries		–		(1)		13
Ending balance	Ps.	–	Ps.	–	Ps.	1

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**g) Reconciliation of Mexican Statutory Income Tax Rate to Consolidated Effective Income Tax Rate:**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Mexican statutory income tax rate	30.00%	30.00%	28.00%
Income tax from prior years	0.47	(0.76)	0.52
Monetary position gain	(0.28)	(0.85)	(1.05)
Annual inflation adjustment	0.99	1.15	1.31
Non-deductible expenses	1.02	0.61	0.87
Non-taxable income	(0.56)	(0.66)	(0.15)
Income taxed at a rate other than the Mexican statutory rate	2.16	1.86	2.97
Effect of restatement of tax values	(1.00)	(1.03)	(0.78)
Changes in valuation allowance for tax losses	-	-	(0.38)
Effect of change in statutory rate	0.03	0.05	(0.33)
Other	0.56	(1.11)	0.09
Consolidated effective income tax rate	33.39%	29.26%	31.07%

**Note 24. Other Liabilities and Contingencies.****a) Other Current Liabilities:**

		<b>2011</b>		<b>2010</b>
Derivative financial instruments (Note 19)	Ps.	8	Ps.	19
Sundry creditors		1,025		974
Total	Ps.	1,033	Ps.	993

**b) Other Liabilities:**

		<b>2011</b>		<b>2010</b>
Contingencies	Ps.	2,284	Ps.	2,153
Other liabilities		987		1,261
Derivative financial instruments (Note 19)		424		498
Total	Ps.	3,695	Ps.	3,912

**c) Contingencies Recorded in the Balance Sheet:**

The Company has various loss contingencies, and has recorded reserves as other liabilities for those legal proceedings for which it believes an unfavorable resolution is probable. Most of these loss contingencies are the result of the Company's business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2011 and 2010:

		<b>2011</b>		<b>2010</b>
Taxes, primarily indirect taxes	Ps.	925	Ps.	799
Labor		1,128		1,134
Legal		231		220
Total	Ps.	2,284	Ps.	2,153



**d) Changes in the Balance of Contingencies Recorded:**

		<b>2011</b>		<b>2010</b>		<b>2009</b>
Initial balance	Ps.	2,153	Ps.	2,467	Ps.	2,076
Penalties and other charges		277		376		258
New contingencies		139		156		475
Contingencies added in business combinations – primarily tax related		181		–		–
Cancellation and expiration		(353)		(205)		(241)
Payments		(175)		(211)		(190)
Brazil tax amnesty (see Note 23a)		–		(333)		(433)
Restatement of the beginning balance of inflationary subsidiaries		62		(97)		522
Ending balance	Ps.	2,284	Ps.	2,153	Ps.	2,467

**e) Pending Lawsuits:**

The Company is party to a number of tax, legal and labor lawsuits that have arisen throughout the normal course of its business and which are common in its industry.

The estimated amount of these lawsuits is Ps. 6,781. The Company's legal counsel estimates that the changes of these cases being ruled against the Company are less than probable but more than remote. However, the Company does not believe that the rulings, one way or the other, will have a material adverse effect on its consolidated financial position or result of operations.

In recent years, the Company's Mexican, Costa Rican and Brazilian territories have been required to submit certain information to their relevant authorities regarding possible monopolistic practices. Such proceedings are a normal occurrence in the soft drink industry and the Company does not expect any significant liability to arise from these contingencies.

**f) Collateralized Contingencies:**

As is customary in Brazil, the Company has been required by the tax authorities there to collateralize tax contingencies currently in litigation amounting to Ps. 2,418 and Ps. 2,292 as of December 31, 2011 and 2010, respectively, by pledging fixed assets and entering into available lines of credit covering the contingencies.

**g) Commitments:**

As of December 31, 2011, the Company has operating lease commitments for the leasing of production machinery and equipment, distribution equipment and computer equipment.

The contractual maturities of the lease commitments by currency, expressed in Mexican pesos as of December 31, 2011, are as follows:

		<b>Mexican</b>		<b>U.S.</b>
		<b>Pesos</b>		<b>Dollars</b>
2012	Ps.	339	Ps.	33
2013		248		29
2014		227		20
2015		161		9
2016		165		–
2017 and thereafter		690		–
Total	Ps.	1,830	Ps.	91

Rental expense charged to results of operations amounted to approximately Ps. 859, Ps. 570 and Ps. 546 for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company has some operating leases that are denominated in U.S. dollars, for which embedded derivatives have been identified and accounted for in the accompanying financial statements.

## Note 25. Information by Reporting Segment.

The Company's Chief Operating Decision Maker ("CODM") is its Chief Executive Officer. Operating segments are at a country level, with the exception of Central America which is considered an operating segment by itself. Prior to 2011, the Company aggregated operating segments into the following reporting segments for the purposes of its consolidated financial statements: (i) Mexico, (ii) Latincentro, which aggregated Colombia and Central America, (iii) Venezuela, and (iv) Mercosur, which aggregated Brazil and Argentina.

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During August 2011, the Company changed certain aspects of its business structure and organization, although its CODM and operating segments remain the same. In order to align its segments disclosures with its new internal structure, the Company has decided to change the aggregation of its operating segments into the following reportable segments for consolidated financial statement purposes: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama) and (ii) the South America division (comprising the following countries: Brazil, Argentina, Colombia and Venezuela). Venezuela operates in an economy with exchange control and hyper-inflation; and as a result, Bulletin B-5 "Information by Segments" does not allow its aggregation into the South America segment. The Company is of the view that the quantitative and qualitative aspects of the aggregated operating segments are similar in nature for all periods presented.

Segment disclosures for prior periods have been reclassified for comparison purposes.

	<b>Total</b>	<b>Income from</b>	<b>Capital</b>	<b>Long-term</b>	<b>Total</b>	<b>Total</b>
	<b>Revenues</b>	<b>Operations</b>	<b>Expenditures</b>	<b>Assets</b>	<b>Assets</b>	<b>Liabilities</b>
<b>2011</b>						
Mexico and Central America (1)	Ps. 52,196	Ps. 8,906	Ps. 4,117	Ps. 81,425	Ps. 94,370	Ps. 34,245
South America (2)	52,408	7,943	3,067	30,447	44,798	13,111
Venezuela	20,111	3,303	642	7,662	12,440	3,472
Consolidated	Ps. 124,715	Ps. 20,152	Ps. 7,826	Ps. 119,534	Ps. 151,608	Ps. 50,828

	<b>Total</b>	<b>Income from</b>	<b>Capital</b>	<b>Long-term</b>	<b>Total</b>	<b>Total</b>
	<b>Revenues</b>	<b>Operations</b>	<b>Expenditures</b>	<b>Assets</b>	<b>Assets</b>	<b>Liabilities</b>
<b>2010</b>						
Mexico and Central America (1)	Ps. 45,213	Ps. 7,714	Ps. 3,427	Ps. 54,593	Ps. 67,234	Ps. 24,919
South America (2)	44,210	6,921	3,547	27,560	39,048	12,829
Venezuela	14,033	2,444	504	5,472	7,779	2,432
Consolidated	Ps. 103,456	Ps. 17,079	Ps. 7,478	Ps. 87,625	Ps. 114,061	Ps. 40,180

	<b>Total</b>	<b>Income from</b>	<b>Capital</b>
	<b>Revenues</b>	<b>Operations</b>	<b>Expenditures</b>
<b>2009</b>			
Mexico and Central America (1)	Ps. 43,034	Ps. 7,998	Ps. 3,086
South America (2)	37,303	6,022	1,948
Venezuela	22,430	1,815	1,248
Consolidated	Ps. 102,767	Ps. 15,835	Ps. 6,282

(1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 44,561, Ps. 38,782 and Ps. 36,785 during the years ended December 31, 2011, 2010 and 2009, respectively. Domestic (Mexico only) long-term assets were Ps. 72,616 and Ps. 46,847 as of December 31, 2011 and 2010, respectively.

(2) South America includes Brazil, Argentina, Colombia and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 31,132, Ps. 26,841 and Ps. 21,456 during the years ended December 31, 2011, 2010 and 2009, respectively. Brazilian long-term assets were Ps. 14,770 and Ps. 14,026 as of December 31, 2011 and 2010 respectively. South America revenues also include Colombian revenues of Ps. 11,920, Ps. 10,850 and Ps. 9,744 during the years ended December 31, 2011, 2010 and 2009, respectively. Colombian long-term assets were Ps. 12,721 and Ps. 11,069 as of December 31, 2011 and 2010, respectively.

## Note 26. Differences Between Mexican FRS and U.S. GAAP

As discussed in Note 2, the consolidated financial statements of the Company are prepared in accordance with Mexican FRS, which differs in certain significant respects from U.S. GAAP. A reconciliation of the reported net income, equity and comprehensive income to U.S. GAAP is provided in Note 27.

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Included in Notes 26 and 27 are references to certain U.S. GAAP Codifications ("ASC") that were adopted during the periods presented herein.

The principal differences between Mexican FRS and U.S. GAAP included in the reconciliation that affect the consolidated financial statements of the Company are described below.

### **a) Restatement of Prior Year Financial Statements for Inflationary Effects:**

Under U.S. GAAP, the Company applies the regulations of the Securities and Exchange Commission of the United States of America ("SEC") which include certain accounting accommodations. Consequently, the Company was not required to reconcile the inflation effects prior to the adoption of NIF B-10, since the consolidated financial statements were comprehensively restated in constant units of the reporting currency.

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Beginning on January 1, 2008, in accordance with NIF B-10, the Company discontinued inflationary accounting for subsidiaries that operate in non-inflationary economic environments. As a result, prior year's financial information and all other adjustments for U.S. GAAP purposes were restated and translated as of December 31, 2007, which is the date of the last recognition of inflation effects. The cumulative effect of the previously realized and unrealized results from holding nonmonetary assets (RETANM) for previous periods was reclassified to retained earnings. This reclassification did not result in a difference that is being reconciled for U.S. GAAP.

Beginning in 2008, as a result of discontinuing inflationary accounting for subsidiaries that operate in non-inflationary economic environments, the Company's financial statements are no longer considered to be presented in a reporting currency that includes the comprehensive effects of price level changes. Therefore, the inflationary effects of economic environments that are inflationary under Mexican FRS, but not hyperinflationary under US GAAP arising in 2008 through 2011 represent a difference that is reconciled for U.S. GAAP purposes.

As disclosed in Note 4a, the three year cumulative inflation rate for Venezuela was 108.2% for the period 2008 through 2010. The three year cumulative inflation rate for Venezuela was 102.9% as of December 31, 2011.

Accordingly, the Company considers its Venezuela subsidiary as a hyper-inflationary economy for U.S. GAAP purposes beginning January 1, 2010. For U.S. GAAP reconciliation purposes, the Company has applied an accommodation available in Item 17 to the instructions to Form 20-F whereby an International Accounting Standard 21 and 29 indexation approach is applied. U.S. GAAP would otherwise require a hyperinflationary economy to be reported using the U.S. dollar as the functional currency. The information related to the revenues and income from operations as well as long term assets and total assets related to the Venezuelan subsidiary are shown separately in the segment disclosure footnote (see Note 25). Recent devaluations in the Venezuelan currency are also discussed in Note 3 above.

**b) Classification Differences:**

Certain items require a different classification in the balance sheet or income statement under U.S. GAAP. A description of these different classifications is as follows:

- Gains or losses on the disposal of fixed assets, all severance payments associated with an ongoing benefit and amendments to the pension plans, as well as financial expenses from labor liabilities and employee profit sharing are recorded as part of operating income under U.S. GAAP;
- Under Mexican FRS, deferred taxes are classified as non-current, while under U.S. GAAP they are classified based on the classification of the related asset or liability, or their estimated reversal date when not associated with an asset or liability;
- Under Mexican FRS, restructuring costs are recorded as other expenses. For U.S. GAAP purposes, restructuring costs are recorded as operating expenses;
- Under Mexican FRS, due to the changes in NIF C-1, restricted cash was reclassified to cash and cash equivalents, and for U.S. GAAP purposes, restricted cash is presented in other current assets;
- Under Mexican FRS the leasehold improvements are classified as other assets, while under U.S. GAAP purposes, they are reclassified to property, plant and equipment;
- Under Mexican FRS the interest cost related to labor obligations is presented as part of the comprehensive financing result while under U.S. GAAP is classified as operating expenses.

**c) Deferred Promotional Expenses:**

As explained in Note 4f, for Mexican FRS purposes, the promotional costs related to the launching of new products or product presentations are recorded as prepaid expenses. For U.S. GAAP purposes, such promotional costs are expensed as incurred.

**d) Intangible Assets:**

In conformity with Mexican FRS, the amortization of intangible assets with indefinite useful lives was discontinued in 2003. For U.S. GAAP purposes, the amortization of intangible assets with indefinite useful lives was discontinued as of 2002. As a result, the Company performed an initial impairment test of intangible assets as of January 1, 2002 and found no impairment. Subsequent impairment tests are performed annually by the Company or more frequently, if events or changes in circumstances between annual tests indicate that the asset might be impaired.

During the year ended December 31, 2009, the Company acquired the Brisa water business in Colombia (see Note 5). For U.S. GAAP, acquired distribution rights intangible assets are recorded at estimated fair value at the date of the purchase. Under Mexican FRS, this distribution rights intangible asset is recorded at its estimated fair value, limited to the underlying amount of the purchase price consideration. This results in a difference in accounting for acquired intangible assets between Mexican FRS and U.S. GAAP. These differences have resulted in a gain being

recorded in 2009 for U.S. GAAP purposes in the amount of Ps. 72.

**e) Restatement of Imported Equipment:**

Through December 2007, the Company restated imported machinery and equipment by applying the inflation rate and the exchange rate of the currency of the country of origin. The resulting amounts were then translated into Mexican pesos using the period end exchange rate.

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On January 1, 2008, the Company adopted Mexican FRS B-10 which establishes that imported machinery and equipment must be recorded using the acquisition-date exchange rate. Companies that operate in inflationary economic environments must restate imported machinery and equipment by applying the inflation rate of the country in which the asset is acquired. However, this change in methodology did not have a material impact on the consolidated financial statements of the Company (see Note 4a).

**f) Capitalization of Comprehensive Financing Result:**

In accordance with U.S. GAAP, if interest expense is incurred during the construction of qualifying assets and the net effect is material, capitalization is required for all assets that require a period of time to get them ready for their intended use. The net effect of interest expenses incurred to bring qualifying assets to the condition for its intended use was Ps. 92, Ps. 90 and Ps. 61 for the years ended on December 31, 2011, 2010 and 2009, respectively.

A reconciling item is included for the difference in capitalized comprehensive financing result policies under Mexican FRS and capitalized interest expense policies under U.S. GAAP.

**g) Fair Value Measurements**

FASB pronouncements establish a framework for measuring fair value with a focus towards exit price and the use of market-based inputs over company-specific inputs. This pronouncement requires companies to consider its own nonperformance risk (the risk that the obligation will not be fulfilled) to measure liabilities carried at fair value, including derivative financial instruments. The effective date of this standard for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually) started on January 1, 2009.

U.S. GAAP allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). Except in certain circumstances, the fair value option is applied on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. Whenever, the fair value option is chosen for an instrument, the unrealized gains and losses from that instrument must be reported in earnings at each subsequent reporting date. The Company did not elect to adopt the fair value option for any of its outstanding instruments; therefore, it did not have any impact on its consolidated financial statements.

**h) Deferred Income Taxes, Employee Profit Sharing and Uncertain Tax Positions:**

The calculation of deferred income taxes and employee profit sharing for U.S. GAAP purposes differs from Mexican FRS in the following respects:

- Under Mexican FRS, inflation effects on the balance of deferred taxes generated by monetary items are recognized in the income statement as part of the monetary position result when entities operate in an inflationary economic environment. Under U.S. GAAP, the deferred taxes balance is classified as a nonmonetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain or loss on monetary position and deferred income taxes provision;

- Under Mexican FRS, deferred employee profit sharing is calculated using the asset and liability method, which is the method used to compute deferred income taxes under U.S. GAAP. Employee profit sharing is deductible for purposes of Mexican taxes on profit. This deduction reduces the payments of income taxes in subsequent years. For Mexican FRS purposes, the Company did not record deferred employee profit sharing, since it is not expected to materialize in the future; and

- The differences in restatement of imported machinery and equipment, capitalization of comprehensive result, promotional expenses, employee profit sharing and employee benefits explained in Note 26c, e, f and i, give rise to a difference in income tax calculated under U.S. GAAP compared to income tax computed under Mexican FRS (see Note 23d).

A reconciliation of deferred income tax and employee profit sharing for U.S. GAAP and Mexican FRS purposes, as well as the changes in the balances of deferred taxes, are as follows:

<b>Reconciliation of Deferred Income Taxes, Net</b>		<b>2011</b>		<b>2010</b>
Deferred income taxes under Mexican FRS	Ps.	3,034	Ps.	1,556
U.S. GAAP adjustments:				
Fixed assets		(130)		(33)
Intangible assets		(230)		(166)
Deferred charges		(51)		(20)
Deferred revenues		17		26

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Tax deduction for deferred employee profit sharing	23	55
Deferred promotional expenses	(4)	(14)
Pension liability	(51)	(17)
Seniority premiums	(2)	(3)
Severance indemnities	(11)	(21)
Total U.S. GAAP adjustments	(439)	(193)
Net deferred income tax liability, under U.S. GAAP	Ps. 2,595	Ps. 1,363

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<b>Changes in the Balance of Deferred Income Taxes</b>		<b>2011</b>		<b>2010</b>		<b>2009</b>	
Beginning liability (asset) balance	Ps.	1,363	Ps.	513	Ps.	(183)	
Provision for the year		(260)		327		(202)	
Cumulative other comprehensive income		1,492		523		898	
Ending liability balance	Ps.	2,595	Ps.	1,363	Ps.	513	

<b>Reconciliation of Deferred Employee Profit Sharing</b>		<b>2011</b>		<b>2010</b>		
Deferred employee profit sharing under Mexican FRS			Ps.	–	Ps.	–
U.S. GAAP adjustments:						
Inventories				(3)		4
Property, plant and equipment				121		(11)
Deferred charges				5		4
Labor liabilities				(108)		(84)
Severance indemnities				(31)		(18)
Other reserves				(66)		(90)
Total U.S. GAAP adjustments				(82)		(195)
Net deferred employee profit sharing asset under U.S. GAAP			Ps.	(82)	Ps.	(195)

<b>Changes in the Balance of Deferred Employee Profit Sharing</b>		<b>2011</b>		<b>2010</b>		<b>2009</b>	
Beginning (liability) asset balance	Ps.	(195)	Ps.	(24)	Ps.	71	
Provision for the year		133		(163)		(83)	
Cumulative other comprehensive income		(20)		(8)		(12)	
Ending asset balance	Ps.	(82)	Ps.	(195)	Ps.	(24)	

According to U.S. GAAP, the Company is required to recognize a tax position in its financial statements 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. Any excess 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 uncertain tax position. According to Mexican FRS, the Company is required to record tax contingencies in its financial statements when such liabilities are probable in nature and estimable. While the underlying concepts for recognizing income tax uncertainties differs between Mexican FRS and U.S. GAAP, this difference has not resulted in any reconciling items during the periods presented herein.

#### **i) Employee Benefits:**

On January 1, 2008, the Company adopted NIF D-3. This standard eliminates the recognition of an additional labor liability for the difference between actual benefits and the net projected liability, NIF D-3 also establishes a maximum of five years period for the amortization of the beginning balance of prior service costs of pension plans and severance indemnities and requires that actuarial gains or losses of severance indemnities be credited or charged to income from operations of the period they arise. The adoption of NIF D-3 gave rise to a difference between the unamortized net transition liability and the actual amortization expense of pension plans and severance indemnities. Under U.S. GAAP the Company is required to fully recognize as an asset or liability for the overfunded or underfunded status of defined benefit pension and other postretirement benefit plans as NIF D-3.

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The adoption of NIF B-10 for Mexican FRS, required the application of real rates for actuarial calculations for entities that operate in inflationary economic environments and nominal rates for those that operate in non-inflationary economic environments. The Company uses those same criteria under U.S. GAAP.

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The reconciliation of the pension cost for the year and related labor liabilities is as follows:

<b>Net Pension Cost</b>		<b>2011</b>		<b>2010</b>		<b>2009</b>
Net pension cost recorded under Mexican FRS	Ps.	170	Ps.	152	Ps.	164
U.S. GAAP adjustments:						
Amortization of unrecognized transition obligation		—		—		1
Amortization of prior service cost		1		1		1
Amortization of net actuarial gain		(3)		(3)		(1)
Net pension cost under U.S. GAAP	Ps.	168	Ps.	150	Ps.	165

<b>Pension Liability</b>				<b>2011</b>		<b>2010</b>
Pension liability under Mexican FRS			Ps.	899	Ps.	779
U.S. GAAP adjustments:						
Unrecognized prior service				188		199
Unrecognized net actuarial loss (gain)				5		(115)
Pension liability under U.S. GAAP			Ps.	1,092	Ps.	863

The reconciliation of the net severance indemnity cost and severance indemnity liability is as follows:

<b>Net Severance Indemnity Cost</b>		<b>2011</b>		<b>2010</b>		<b>2009</b>
Net severance indemnity cost under Mexican FRS	Ps.	151	Ps.	160	Ps.	132
U.S. GAAP adjustments:						
Amortization of unrecognized net transition obligation		(38)		(36)		(36)
Net severance indemnity cost under U.S. GAAP	Ps.	113	Ps.	124	Ps.	96

<b>Severance Indemnity Liability</b>				<b>2011</b>		<b>2010</b>
Severance indemnity liability under Mexican FRS			Ps.	497	Ps.	348
U.S. GAAP adjustments:						
Unrecognized net transition obligation				37		72
Severance indemnity liability under U.S. GAAP			Ps.	534	Ps.	420

The reconciliation of the seniority premiums liability is as follows:

<b>Seniority Premium Cost</b>		<b>2011</b>		<b>2010</b>		<b>2009</b>
Net seniority premium cost under Mexican FRS	Ps.	25	Ps.	21	Ps.	17
U.S. GAAP adjustments:						
Amortization of unrecognized net transition obligation, (gain) loss		(3)		(1)		2
Net seniority premium cost under U.S. GAAP	Ps.	22	Ps.	20	Ps.	19

<b>Seniority premium liability</b>		<b>2011</b>		<b>2010</b>
Seniority premium liability under Mexican FRS	Ps.	141	Ps.	83
U.S. GAAP adjustments:				
Unrecognized net actuarial loss		7		11
Seniority premium liability under U.S. GAAP	Ps.	148	Ps.	94

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Estimates of the unrecognized items expected to be recognized as components of net periodic pension cost during 2012 are shown in the table below:

	<b>Pension and Retirement Plans</b>		<b>Seniority Premium</b>	
Actuarial net loss and prior service cost recognized in cumulative other comprehensive income during the year	Ps.	117	Ps.	(1)
Actuarial net loss and prior service cost recognized as a component of net periodic cost		12		-
Actuarial net loss, prior service cost and transition liability included cumulative other comprehensive income		(108)		(24)
Estimate to be recognized as a component of net periodic cost over the following fiscal year:				
Prior service cost		11		-
Actuarial loss		2		1

**j) Deconsolidation of Crystal brand water in Brazil:**

During 2009, the Company established a joint venture with The Coca-Cola Company for the production and sale of Crystal brand water in Brazil. The Company has recorded a gain for U.S. GAAP purposes of Ps.120 related to the deconsolidation of its net assets related to the Crystal operations. Approximately, Ps.120 of previously recorded unearned revenues related to Crystal operations remained recorded for Mexican FRS purposes, and are being amortized into income along with the results from the joint venture over the following three years (through 2012) for Mexican FRS purposes.

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**k) Financial Information Under U.S. GAAP:**

<b>Consolidated Balance Sheets</b>	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	Ps. 11,843	Ps. 12,140
Marketable securities	330	—
Accounts receivable	8,634	6,363
Inventories	7,573	5,007
Recoverable taxes	1,529	1,658
Other current assets	2,150	1,223
Deferred income tax and employee profit sharing	852	830
Total current assets	32,911	27,221
Investment in shares	3,656	2,108
Property, plant and equipment, net	41,442	32,032
Intangible assets, net	69,795	50,697
Deferred income tax and employee profit sharing	691	1,197
Other assets	2,885	1,758
<b>TOTAL ASSETS</b>	Ps. 151,380	Ps. 115,013
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities:</b>		
Bank loans	Ps. 638	Ps. 1,615
Current maturities of long-term debt	4,902	225
Interest payable	206	151
Suppliers	11,852	8,988
Accounts payable	3,661	3,743
Taxes payable	2,785	1,931
Other liabilities	1,033	993
Deferred income tax and employee profit sharing	3	10
Total current liabilities	25,080	17,656
<b>Long-Term Liabilities:</b>		
Bank loans and notes payable	17,034	15,511
Deferred income tax and employee profit sharing	4,053	3,185
Labor liabilities	1,774	1,378
Contingencies	2,284	2,152
Other liabilities	1,361	1,663
Total long-term liabilities	26,506	23,889
Total liabilities	51,586	41,545

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**Equity:**

Non-controlling interest		3,124		2,633
Controlling interest		96,670		70,835
Total equity:		99,794		73,468
<b>TOTAL LIABILITIES AND EQUITY</b>	Ps.	151,380	Ps.	115,013

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**Consolidated Income Statements and  
Comprehensive Income**

	<b>2011</b>		<b>2010</b>		<b>2009</b>	
Net sales	Ps.	123,622	Ps.	102,640	Ps.	99,835
Other operating revenues		666		482		558
Total revenues		124,288		103,122		100,393
Cost of goods sold		68,240		55,944		54,335
Gross profit		56,048		47,178		46,058
Operating expenses:						
Administrative		5,380		4,555		5,341
Selling		32,686		27,253		26,514
Market value, loss (gain) of operating derivative instruments		2		(38)		(12)
		38,068		31,770		31,843
Income from operations		17,980		15,408		14,215
Comprehensive financing result:						
Interest expense		1,634		1,595		1,775
Interest income		(600)		(285)		(282)
Foreign exchange loss, net		35		384		365
Gain on monetary position		(58)		(228)		—
Market value loss (gain) on ineffective portion of derivative financial instruments		138		(206)		(106)
		1,149		1,260		1,752
Other expenses, net		480		163		226
Income before income taxes		16,351		13,985		12,237
Income taxes		5,422		4,097		3,525
Income before participation in affiliated companies		10,929		9,888		8,712
Equity interest in results of affiliated companies		86		217		141
Consolidated net income		11,015		10,105		8,853
Less: net income attributable to the non-controlling interests		(548)		(497)		(446)
<b>Net income attributable to the controlling interests</b>	<b>Ps.</b>	<b>10,467</b>	<b>Ps.</b>	<b>9,608</b>	<b>Ps.</b>	<b>8,407</b>
Consolidated net income	Ps.	11,015	Ps.	10,105	Ps.	8,853
Other comprehensive income		2,945		(70)		2,060
Consolidated comprehensive income		13,960		10,035		10,913
Less: comprehensive income attributable to the non-controlling interest		(517)		(604)		(592)
<b>Comprehensive income attributable to the controlling interest</b>	<b>Ps.</b>	<b>13,443</b>	<b>Ps.</b>	<b>9,431</b>	<b>Ps.</b>	<b>10,321</b>
<b>Net income per share</b>	<b>Ps.</b>	<b>5.61</b>	<b>Ps.</b>	<b>5.20</b>	<b>Ps.</b>	<b>4.55</b>



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<b>Consolidated Cash Flows</b>		<b>2011</b>		<b>2010</b>		<b>2009</b>
<b>Operating Activities:</b>						
Consolidated Net Income	Ps.	11,015	Ps.	10,105	Ps.	8,853
Non-cash operating expenses		385		323		228
Equity in earnings affiliated companies		(86)		(217)		(142)
Unrealized gain on marketable securities		(4)		—		(112)
Gain on deconsolidation of Crystal brand water in Brazil		—		—		(120)
Gain on acquisition of Brisa intangible assets		—		—		(72)
Other adjustments regarding operating activities		—		—		8
Adjustments regarding investing activities:						
Depreciation		4,192		3,381		3,696
Amortization		396		694		307
Loss on sale of long-lived assets		98		231		186
Disposal of long-lived assets		606		47		124
Interest		(601)		(285)		(286)
Income tax		5,433		4,106		3,574
Adjustments regarding financing activities:						
Interest		1,616		1,579		1,850
Foreign exchange loss, net		33		424		370
Monetary position gain, net		(57)		(228)		—
Derivative financial instruments		2		(468)		(318)
Increase in accounts receivable		(1,640)		(1,092)		(394)
(Increase) decrease in inventories		(1,782)		10		(90)
Decrease (increase) in other assets		908		(743)		(191)
(Decrease) increase in suppliers and other accounts payable		(301)		585		2,808
Decrease in other liabilities		(205)		(208)		(424)
Decrease in labor liabilities		(230)		(192)		(169)
Income tax paid		(4,565)		(3,882)		(3,061)
Net cash flows from operating activities		15,213		14,170		16,625
<b>Investing Activities:</b>						
Acquisition of Grupo Tampico business (Note 5)		(2,414)		—		—
Acquisition of Grupo CIMSA business (Note 5)		(1,912)		—		—
Acquisition of Brisa business (Note 5)		—		—		(717)
Purchases of investment available-for-sale		(326)		—		(2,001)
Proceeds from disposal of marketable securities		—		1,108		—
Interest received		601		285		286
Acquisition of long-lived assets		(7,344)		(6,845)		(5,883)
Proceeds from the sale of long-lived assets		377		477		638
Other assets		(1,546)		(545)		132



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Investment in shares Grupo Estrella Azul	(620)	–	–
Acquisition of intangible assets	(956)	(1,325)	(1,355)
Net cash flows from investing activities	(14,140)	(6,845)	(8,900)

**Financing Activities:**

Bank loans obtained	6,934	9,251	6,641
Bank loans repaid	(2,755)	(6,824)	(9,376)
Interest paid	(1,567)	(1,436)	(2,047)
Dividends paid	(4,366)	(2,612)	(1,344)
Acquisition of non-controlling interests	(114)	(282)	–

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Other liabilities	(338)	(108)	97
Net cash flows from financing activities	(2,206)	(2,011)	(6,029)
(Decrease) increase in cash and cash equivalents	(1,133)	5,314	1,696
Translation and restatement effects	836	(801)	(261)
Initial cash and cash equivalents	12,140	7,627	6,192
<b>Ending balance of cash and cash equivalents</b>	Ps. 11,843	Ps. 12,140	Ps. 7,627

**Consolidated Statements of Changes in Equity**

		<b>2011</b>	<b>2010</b>
Equity at the beginning of the year	Ps.	73,468	Ps. 66,037
Dividends declared		(4,366)	(2,604)
Acquisition of Grupo Tampico		7,828	—
Acquisition of Grupo CIMSA		9,018	—
Acquisitions of non-controlling interest		(114)	—
Cumulative other comprehensive income (loss) :			
Cumulative translation adjustment		3,364	(2,084)
Gain (loss) on cash flow hedges and unrealized gain on marketable securities, net		32	(56)
Reversal of inflation effects for inflationary subsidiaries		(451)	2,070
Total other comprehensive income (loss)		2,945	(70)
Net income		11,015	10,105
<b>Equity at the end of the year</b>	<b>Ps.</b>	<b>99,794</b>	<b>Ps. 73,468</b>

**Note 27. Reconciliation of Mexican FRS to U.S. GAAP.**

**a) Reconciliation of Net Income:**

		<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Consolidated net income under Mexican FRS</b>	Ps.	11,169	Ps. 10,299	Ps. 8,970
U.S. GAAP adjustments:				
Reversal of inflation effects (Note 26a)		26	(116)	(553)
Restatement of imported equipment (Note 26e)		(190)	(184)	(195)
Capitalization of comprehensive financing result (Note 26f)		(76)	57	(29)
Gain on deconsolidation of Crystal brand water in Brazil (Note 26j)		(25)	(44)	120
Gain on acquisition of Brisa intangible assets (Note 26d)		—	—	72
Deferred income taxes (Note 26h)		167	154	469

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Deferred employee profit sharing (Note 26h)	(133)	(163)	(83)
Pension Cost (Note 26i)	2	2	(1)
Seniority premium cost (Note 26i)	3	2	(2)
Severance indemnity cost (Note 26i)	38	36	36
Deferred promotional expenses (Note 26c)	34	62	49
Total U.S. GAAP adjustments	(154)	(194)	(117)
<b>Consolidated net income under U.S. GAAP</b>	<b>Ps. 11,015</b>	<b>Ps. 10,105</b>	<b>Ps. 8,853</b>

Under U.S. GAAP, the monetary position effect of the income statement adjustments of inflationary economic environments is included in each adjustment, except for the capitalization of interest expenses, intangible assets as well as pension plan liabilities, which are nonmonetary.

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**b) Reconciliation of Equity:**

	<b>2011</b>		<b>2010</b>
<b>Total equity under Mexican FRS</b>	Ps. 100,780	Ps.	73,881
U.S. GAAP adjustments:			
Reversal of inflation effects	(1,675)		(1,334)
Intangible assets (Note 26d)	46		46
Restatement of imported equipment (Note 26e)	192		366
Capitalization of comprehensive financing result (Note 26f)	58		184
Gain on deconsolidation of Crystal brand water in Brazil (Note 26j)	50		75
Gain on acquisition of Brisa intangible assets (Note 26d)	72		72
Deferred income taxes (Note 26h)	439		193
Deferred employee profit sharing (Note 26h)	82		195
Deferred promotional expenses (Note 26c)	(13)		(43)
Pension liability (Note 26i)	(193)		(84)
Seniority premiums (Note 26i)	(7)		(11)
Severance indemnities (Note 26i)	(37)		(72)
Total U.S. GAAP adjustments	(986)		(413)
<b>Equity under U.S. GAAP</b>	<b>Ps. 99,794</b>	<b>Ps.</b>	<b>73,468</b>

**c) Reconciliation of Comprehensive Income:**

	<b>2011</b>		<b>2010</b>		<b>2009</b>
<b>Consolidated comprehensive income under Mexican FRS</b>	Ps. 14,533	Ps.	8,295	Ps.	12,200
U.S. GAAP adjustments:					
Net income (Note 27a)	(154)		(194)		(117)
Cumulative translation adjustment	102		(89)		(59)
Reversal of inflation effects	(451)		2,070		(1,171)
Labor obligations	(70)		(47)		60
<b>Consolidated comprehensive income under U.S. GAAP</b>	<b>Ps. 13,960</b>	<b>Ps.</b>	<b>10,035</b>	<b>Ps.</b>	<b>10,913</b>

**Note 28. Implementation of International Financial Reporting Standards ("IFRS").**

The Comision Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission, or CNBV) announced that commencing in 2012 all public companies listed in Mexico must report their financial information in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). Accordingly, the Company will adopt IFRS beginning in January 1, 2012, with a transition date to IFRS of January 1, 2011.

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The Company's transition date to IFRS will be January 1, 2011 ("Transition Date"). IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") sets mandatory exemptions and allows certain optional exemptions to the complete a retrospective application of IFRS.

The Company applied the relevant mandatory exceptions to retrospective application of IFRS as follows:

### •Estimates

The estimates conducted by the Company under IFRS 1 as of the Transition Date are consistent with the estimates previously recorded under MFRS at that same date.

### •Derecognition of financial assets and liabilities

At the Transition Date, the Company was required to apply the rules under IAS 39, *Financial Instruments: Recognition and Measurement*, and derecognize financial assets and liabilities that occurred at such date which do not comply with the classification criteria under IAS 39. However, there was no impact related to the application of this exception.

### •Hedge accounting

As of the transition date, the Company measured at fair value all derivative financial instruments and hedging relationships designated and documented effectively as accounting hedges as required by IAS 39, which is consistent with the treatment under Mexican FRS.

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As a result, there was no impact in the Company's consolidated financial statements due to the application of this exception.

**•Non-controlling Interest**

The Company applied the requirements under IAS 27, *Consolidated and Separate Financial Statements*, related to non-controlling interest equity prospectively beginning on the Transition Date. There was no impact related to the application of this exception.

The Company has elected the following optional exemptions to retrospective application:

**•Business Combinations:**

According to IFRS 1, an entity may elect not to apply IFRS 3 "*Business Combinations*" retrospectively to business combinations made prior of the transition date to IFRS.

The Company adopted this exemption and did not amend its business combination accounting prior of the Transition Date. Accordingly, it did not re-measure the values determined at the previous acquisition dates, including the amount of distribution rights previously recorded.

**•Deemed Cost:**

An entity may elect to measure an item or all of property, plant and equipment at the Transition Date at its fair value and use that fair value as its deemed cost at that date. In addition, a first-time adopter may elect to use a previous GAAP's revaluation of an item of property, plant and equipment at, or before, of the Transition Date as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: (i) fair value; or (ii) cost or depreciated cost in accordance with IFRS, adjusted to reflect changes in a general or specific price index.

The Company has presented both its property, plant, and equipment and its intangible assets at IFRS historical cost in all countries. In Venezuela this IFRS historical cost represents actual historical cost in the year of acquisition, indexed for inflation in a hyper-inflationary economy based on the provisions of IAS 29.

**•Cumulative Translation Effect:**

A first-time adopter is neither required to recognize translation differences in other comprehensive income and accumulate these in a separate component of equity, nor on disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation from equity to profit or loss as part of the gain or loss on disposal.

The Company applied this exemption and consequently it reclassified the accumulated translation effect recorded under MFRS to retained earnings and beginning January 1, 2011, it will calculate the translation effect prospectively according to International Accounting Standard ("IAS") 21, *The Effects of Changes in Foreign Exchange Rates*.

**•Borrowing Costs:**

A first-time adopter may apply the transitional provisions set out in IAS 23 related to the effective date which shall be interpreted as January 1, 2009 or of the transition date to IFRS, whichever is later.

The Company applied the exemption set out for borrowing costs maintaining the qualifiable assets existing at the transition date and beginning January 1, 2011 it will capitalize its interest costs in accordance with IAS 23, *Borrowing Costs*.

**Recording the Effects of the Transition from MFRS to IFRS:**

The following disclosures provide a qualitative description of the most significant expected effects of the transition to IFRS determined as of the date of the issuance of these consolidated financial statements:

**a) Inflation Effects:**

For the purposes of MFRS B-10, the effects of inflation on financial information must be recognized when the economic environment of the entity is inflationary, that is, when cumulative inflation of the three preceding years is equal to or larger than the 26%. On the other hand, IAS 29 considers an economy as hyper-inflationary when the cumulative inflation over three years approaches or exceeds 100% among other indicators. The last hyperinflationary period for Mexico was 1997, for Brazil was in 1997 prior to the Company's acquisition of its Brazilian operations, and for Argentina was 1994. Accordingly, the Company has eliminated previously recorded inflationary effects in Mexico for the period 1998 through 2007. For foreign

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subsidiaries, the accumulated inflation from the acquisition date was eliminated (except in the case of Venezuela, which was deemed a hyperinflationary economy) from the date the Company began to consolidate them.

### **b) Employee Benefits:**

According to MFRS D-3, a severance provision and the corresponding expenditure must be recognized as the entity intends to terminate the employment relationship before the retirement date, or intends to pay benefits as a result of an offer made to employees to encourage a voluntary termination. For IFRS purposes, this provision is recorded pursuant to IAS 19 (revised), Employee Benefits, when the actions of the Company has demonstrated commitment to end the relationship with the employee or a bid to encourage voluntary retirement. This action is shown with a formal plan that describes the characteristics of the termination of employment. Accordingly, at the Transition Date, the Company eliminated its severance indemnity liability against retained earnings.

The Company has also anticipated the application of IAS 19 (revised), which eliminates the use of the fluctuation band (i.e. corridor method), which tends to defer the actuarial gains/losses, and requires recording them in other comprehensive income. IAS 19 (revised) also eliminates the possibility of deferring the recognition of past services and requires recording them in operations. This resulted in the Company increasing in its liability for employee benefits against retained earnings at the Transition Date.

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**c) Bonus Program:**

Under MFRS the Company recognizes its bonus program plan offered to certain key executives as a defined contribution plan, according to MFRS D-3, *Employee benefits*. Meanwhile IFRS considers this bonus program plan, shall be recorded under the principles set forth IFRS 2, *Sharebased Payments*.

The Company recorded its bonus program plan according to IFRS 2 *Share-based Payment*. The most significant difference for changing the accounting treatment is related to the period during which a compensation expense is recognized, under MFRS D-3 the total amount of the share is recorded in the period in which it was granted, while in IFRS 2 it shall be recognized in the gains or losses during the period the employee vests rights related to such awards. In recording the adoption of IFRS 2, the Company applied transitional provisions whereby it did not record vested amounts prior to the Transition Date.

**d) Deferred Income Taxes:**

The IFRS adjustments recognized by the Company had an impact on the calculation of deferred income taxes according to the requirements established by IAS 12, *Income Taxes*.

**e) Retained Earnings:**

All the adjustments arising from the Company's conversion to IFRS as of the Transition Date were recorded in retained earnings.

**f) Other differences in presentation and disclosures in the financial statements:**

Generally, IFRS disclosure requirements are more extensive than those of NIF, which will result in increased disclosures about accounting policies, significant judgments and estimates, financial instruments and management risks, among others. In addition, there may be differences in presentation.

There are other differences between MFRS and IFRS, however, the Company considers differences mentioned above describe the significant effects identified as of the Transition Date.

The effects of the foregoing are as follow:

			<b>IFRS Transition</b>		<b>Preliminary</b>	
		<b>MFRS</b>	<b>Effects</b>		<b>IFRS</b>	
Current assets	Ps.	26,436	Ps.	(38)	Ps.	26,398
Non-current assets		87,625		(10,523)		77,102
Total assets	Ps.	114,061	Ps.	(10,561)	Ps.	103,500
Current liabilities	Ps.	17,646	Ps.	6	Ps.	17,652
Non-current liabilities		22,534		(1,871)		20,663
Total liabilities		40,180		(1,865)		38,315
Total equity	Ps.	73,881	Ps.	(8,696)	Ps.	65,185

The above IFRS figures should be construed as "preliminary IFRS" as the Company will be adopting IFRS as of December 31, 2012 based on the IFRS that are outstanding and in-force as of that date. The information presented above has been prepared based on the IFRS that the Company believes will be effective at December 31, 2012, or issued and early adopted by the Company at the date of preparation of these consolidated financial statements. The standards and interpretations that will actually be applicable to December 31, 2012, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the consolidated financial statements. Additionally, the accounting policies selected by the Company may change as a result of changes in the economic or industry trends that are observable after the issuance of these consolidated financial statements. Accordingly, the above disclosed information is subject to change.

The information presented above, does not intend to comply with IFRS, in that under IFRS, only one set of financial statements comprising the balance sheet, comprehensive income statement, statement of changes in equity and cash flow, together with comparative information and



explanatory notes, can provide a fair presentation of the financial position of the Company, the results of its operations and cash flows. Not all such information is presented above.

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## Note 29. Subsequent events.

On February 24, 2012, the Company's Board of Directors agreed to propose an ordinary dividend of Ps. 2.77 per share to be paid as of May 30, 2012. This dividend was approved at the Annual Shareholders meeting on March 20, 2012.

On December 15, 2011, the Company and Grupo Fomento Queretano agreed to merge their beverage divisions. Grupo Fomento Queretano's beverage division operates mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The merger agreement was approved by both Coca-Cola FEMSA's and Grupo Fomento Queretano's Boards of Directors as well as by The Coca-Cola Company and is subject to the approval of the Comisión Federal de Competencia, the Mexican antitrust authority. The transaction will involve the issuance of approximately 45.1 million of the company's newly issued series L shares, and in addition the company will assume Ps. 1,221 in net debt. This transaction is expected to be completed in second quarter of 2012.

On February 20, 2012, the Company entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. This agreement does not require either party to enter into a transaction, and there can be no assurances that a definitive agreement will be executed.

On April 13, 2012, the Company executed a new loan agreement with The Bank of Tokyo Mitsubishi UFJ LTD, New York Branch for US\$75 million at a variable rate of Libor plus 65 basis points, this loan agreement has a 2 year term.

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