

# Coca-Cola FEMSA



October 2005



**KOF  
LISTED  
NYSE**

# Cautionary Statement

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## **ADDITIONAL INFORMATION AND WHERE TO FIND IT**

Documents filed by KOF are available at the Securities and Exchange Commission’s public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20594. Investors and security holders may call the Commission at 1-800-SEC-0330 for further information on the public reference room. Free copies of all of KOF’s filings with the Commission may also be obtained by directing a request to:

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# KOF Evolution

*We have faced an evolutionary process since the integration of the new territories, increasing our operating complexity...*

	<u>2002</u>	<u>LTM June 05</u>	<u>Δ 02-05</u>
<b>Volume</b> (MM UC)	620	1,862	+ 171%
<b>Revenues</b> (MM US\$)	1,685	4,299	+ 155%
<b>Assets</b> (MM US\$)	1,546	6,432	+ 316%
<b>Plants</b>	9	30	+ 21
<b>Distribution Facilities</b>	56	237	+ 181
<b>Population</b> (MM)	41	179	+ 337%
<b>Retailers</b> (Thousands)	568	1,493	+ 163%
<b>Employees<sup>(1)</sup></b> (Thousands)	14.5	55.2	+ 281%

(1) Including third parties

# Challenges resulting from the acquisition

***We acquired operations with a high level of deterioration, markets poorly executed and significant challenges...***

***Mexico:***

- *Contain B-brands expansion*
  - *Deal with a more competitive environment*
- 

***Central America:***

- *Increase per capita consumption*
  - *Develop an integrated profitable business model*
- 

***Venezuela:***

- *Operate under a complex environment*
- 

***Colombia:***

- *Reconfigure manufacture and “go-to-market”*
  - *Regain competitive position within the flavor carbonated segment*
- 

***Brazil:***

- *Define a new business model, feasible and profitable*
- 

***Argentina:***

- *Continue developing revenue growth with profitability*
- 

***New KOF Operations***

- *Integrate values and KOF’s culture*

# Initiatives and Strategies Implemented

***During this period we focused our efforts on finding strategic and operating solutions to address these challenges...***

## ***KOF Operations***

- *Development and implementation of multi-segmentation models*
  - *Implement sharing commercial knowledge and best practices replication tools*
  - *Optimize the value chain*
  - *Design a collaborative planning model together with KO*
- 

## ***Mexico***

- *Implement an operating transformation model, including redesigning the “Go-to-Market” process*
  - *Develop a larger returnable portfolio*
  - *Introduction of a solid non-carb beverages portfolio*
- 

## ***Brazil***

- *New business model, including redesigning the distribution network*
  - *Reintroduction of returnable packages*
  - *Implement of right execution daily process*
- 

## ***Argentina***

- *Consolidate the multi-segmentation model*
- *Introduction of a new portfolio of juices*

# Initiatives and Strategies Implemented

***During this period we focused our efforts on finding strategic and operating solutions to address the challenges...***

## **Colombia**

- *Consolidation of manufacturing network*
- *Design a competitive portfolio within the CSD flavor segment, and strengthen brand Coca-Cola at the same time*
- *Redesign Go-to-Market Model*
- *Reorganize organizational structure*

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## **Venezuela**

- *Consolidation of manufacturing network*
- *In process to implement a new business model looking for a better control across the value chain*

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## **Central America**

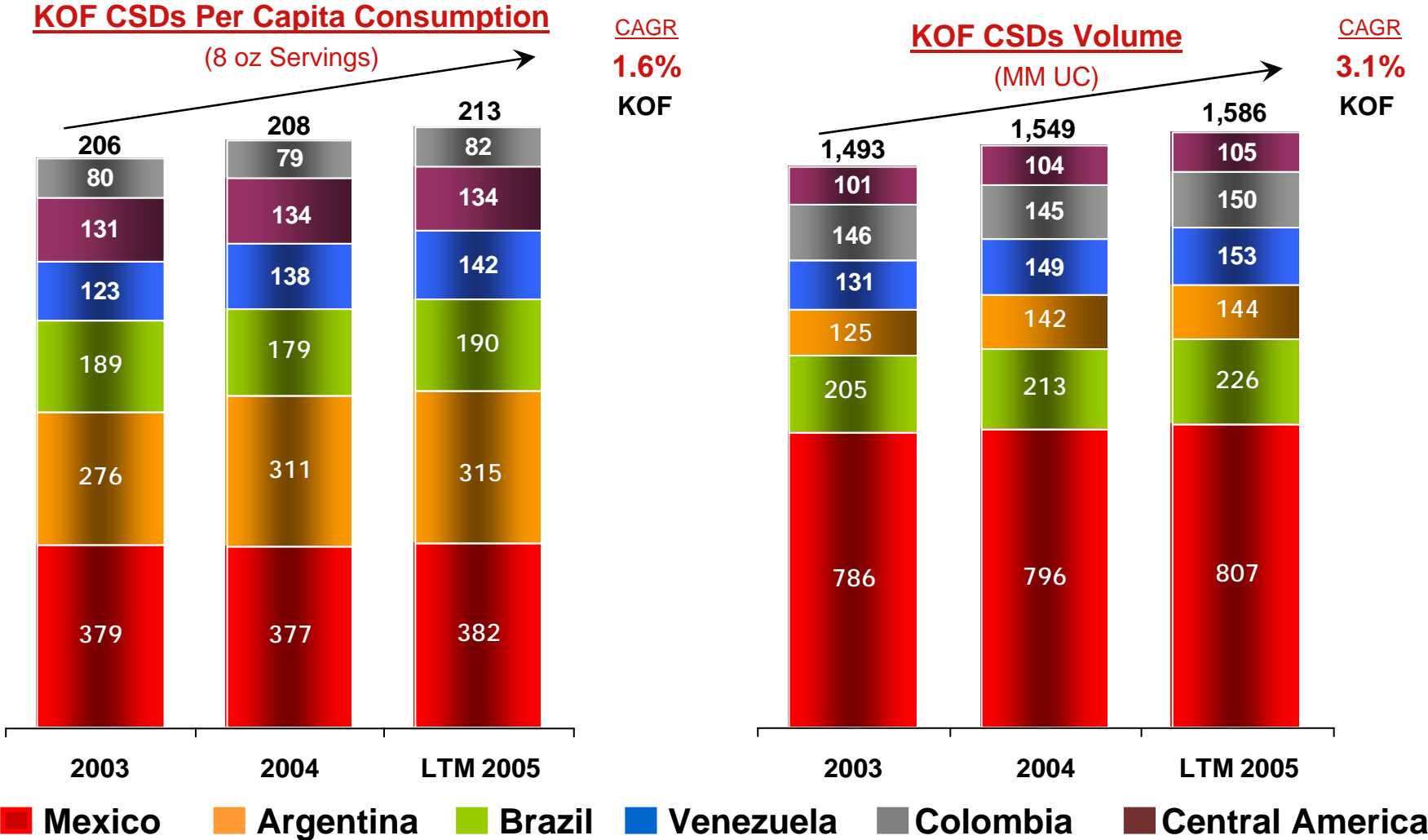
- *Consolidation of regional back-office*
- *Implementation of a share services center*
- *Redesign product and brand portfolio*



***... and we have seen the  
results ...***

# Fostering Market Development

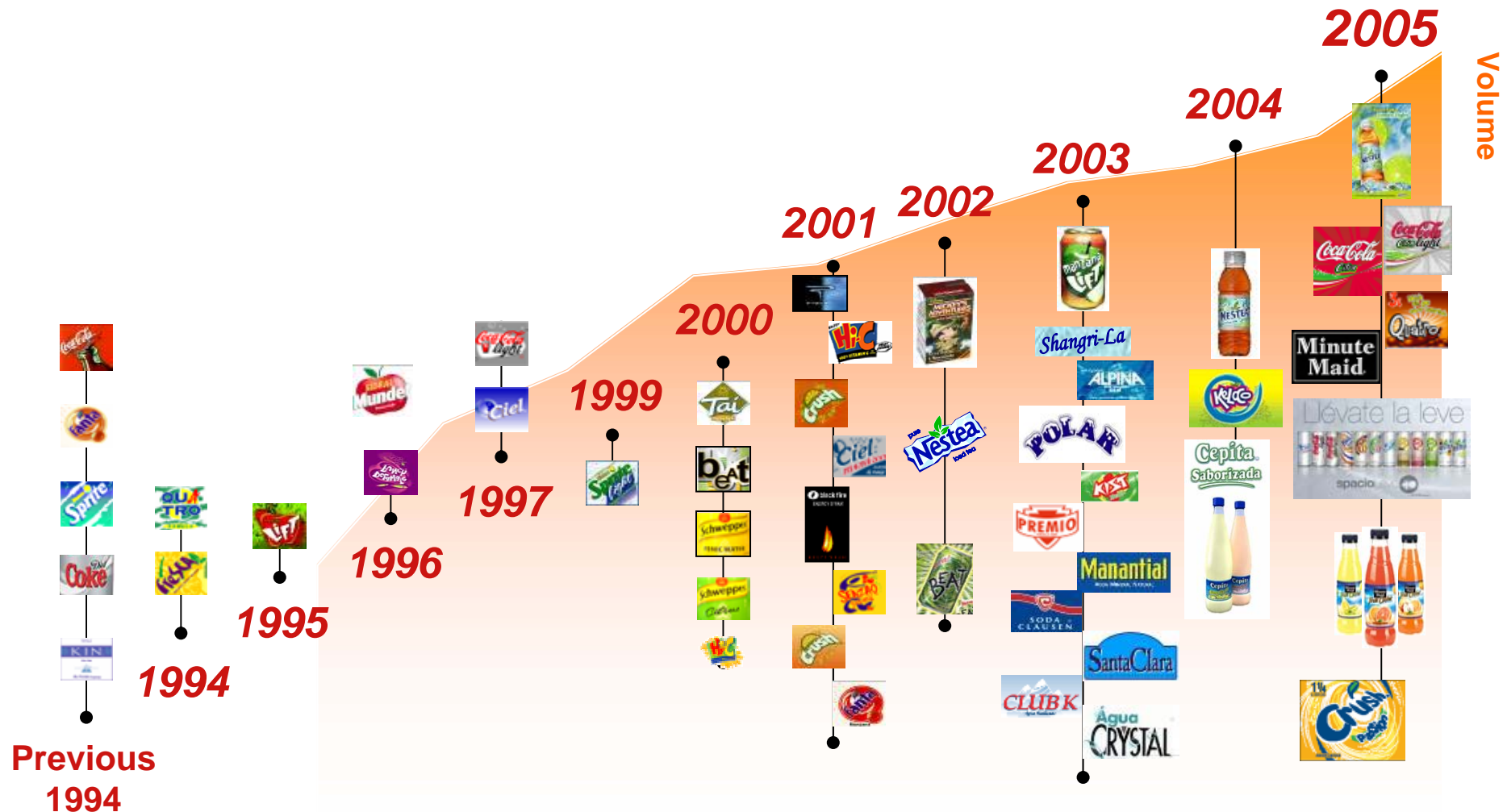
*Multisegmentation strategy has allowed us to increase per capita consumption in our territories, resulting in a sustainable volume growth path*





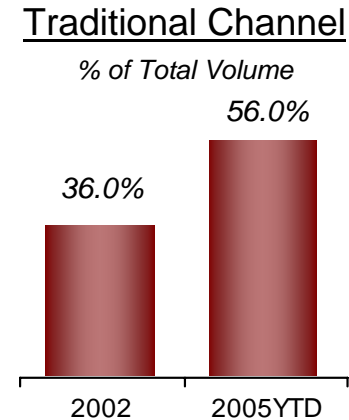
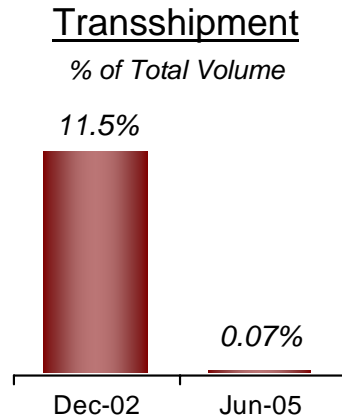
# Successful Brand Portfolio Management

*The development of our Product and Package Portfolio has been crucial to foster demand, demonstrating our capability to handle successfully a sophisticated portfolio*

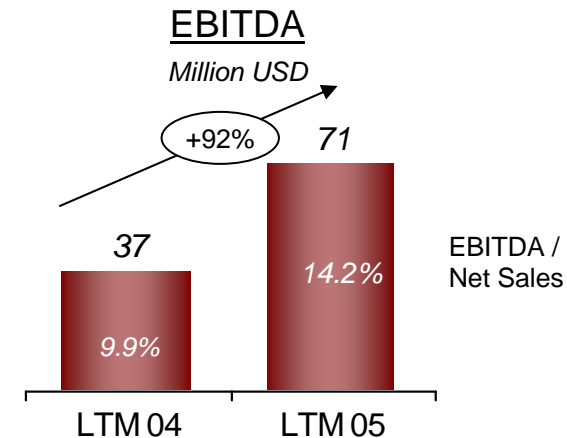
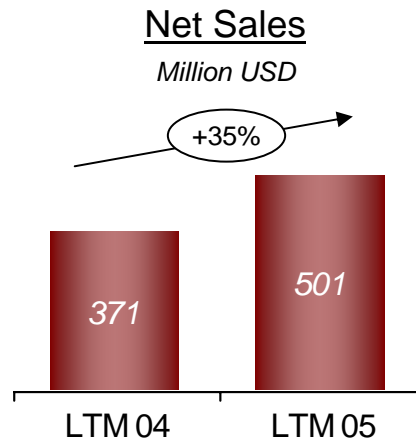
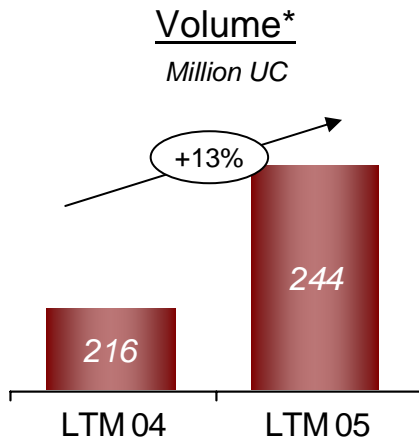


# KOF Brazil – A Successful Turnaround Story

***This experience provided us with the ability to take over the control of the presale function, developed the traditional channel, eliminating transshipment, improving our competitive position ...***



***... and at the same time we regained leverage to establish better selling terms***



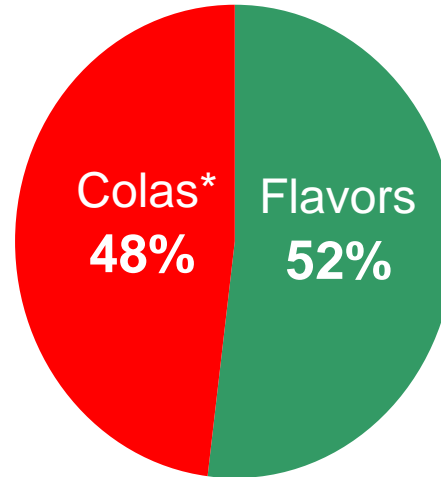
EBITDA /  
Net Sales

\* Does not include Beer Volume.  
LTM information as of June.

# KOF Colombia – A Story of Innovation

***When we arrived in Colombia, we found an overdeveloped flavor segment and a very weak competitive position of KO Brands***

## CSD Industry Mix



***Together with KO, we built a new flavor portfolio to increase our market share in this segment***

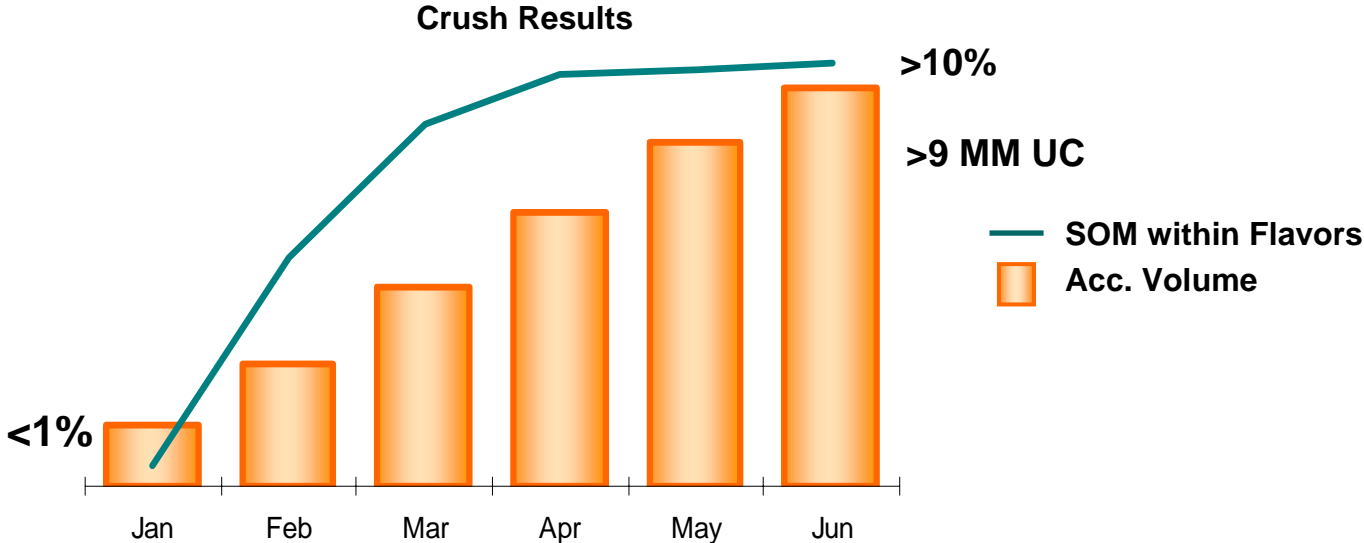
- Launching Crush Multi-Flavor brand
- Creating consumer promotions and activations
- Developing innovative in & out flavor strategy
- Improving brand execution in the point of sale



\* In other KOF territories Cola's Segment accounts for 58% of Total CSDs

# KOF Colombia – A Successful Innovation

**As a result, Crush has exceeded volume expectations and reached a relevant Market Share in the Flavor segment**



**There have also been many initiatives to increase productivity and asset utilization allowing us to increase key performance indicators**

	LTM 04	LTM 05	% Var.
Volume (MM UC)	168.3	172.2	+ 2%
Sales (MM usd)	304.5	385.7	+27%
# Of Plants	17	6	-11
EBIT (MM usd)	28.6	43.7	+53%
EBITDA (MM usd)	48.7	69.0	+42%

LTM information as of June.

# Leveraging on a strong and flexible asset base...

**Completing the integration and streamlining our asset base, let us develop a more flexible and solid platform to foster growth**

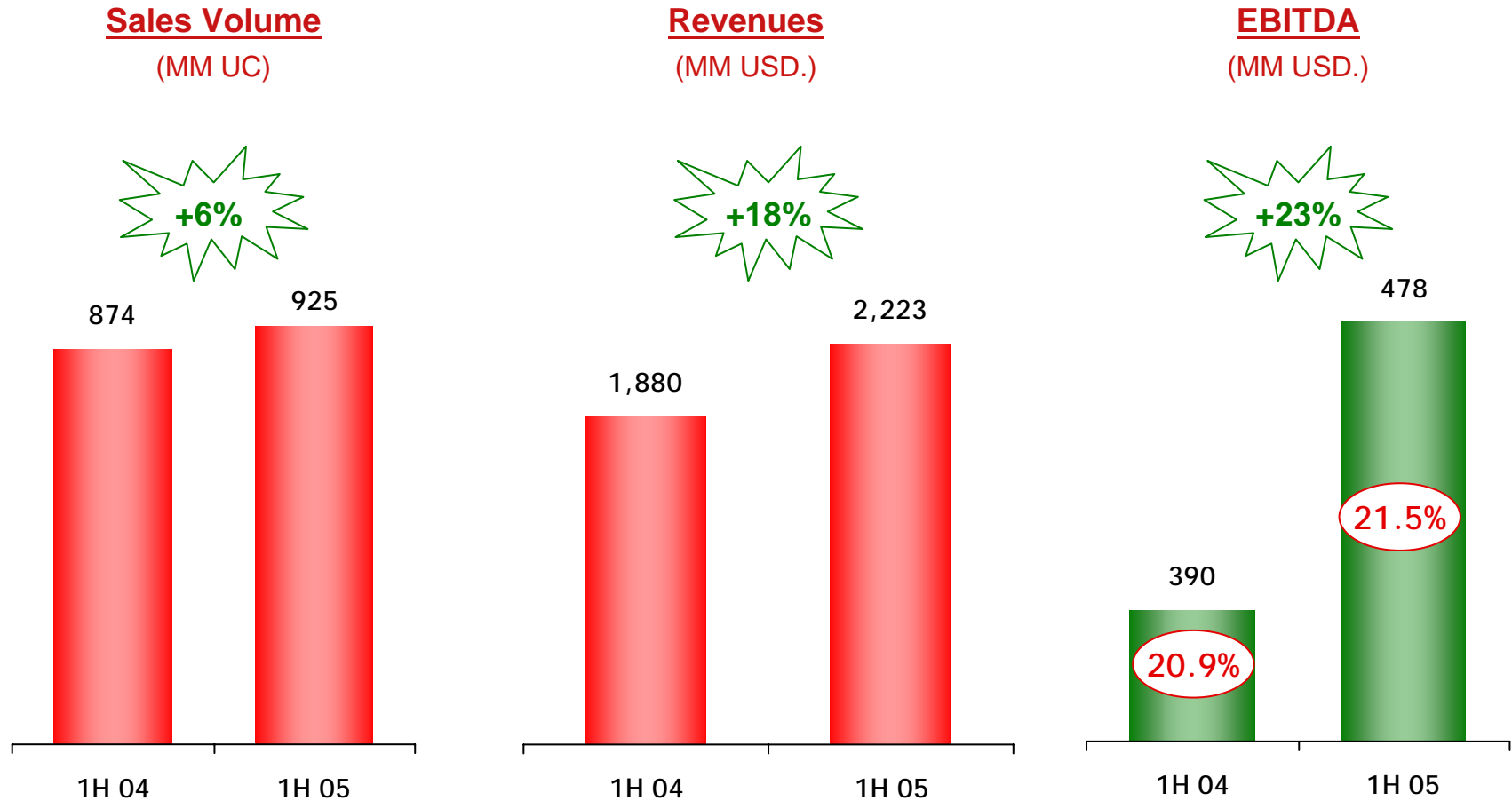
## Operating Efficiencies Indicators

	<u>2003</u>	<u>LTM 2005</u>	<u>Var 03-05</u>
<b>Plants</b>	<b>52</b>	<b>30</b>	<b>- 22</b>
<b>Distribution Facilities</b>	<b>284</b>	<b>237</b>	<b>- 47</b>
<b>Line Utilization</b>	<b>45.0%</b>	<b>54.5%</b>	<b>+ 9.5 pp</b>
<b>Total Headcount<sup>(1)</sup></b>	<b>56,841</b>	<b>55,196</b>	<b>-1,645</b>
<b>CSD Volume (MM UC)</b>	<b>1,493</b>	<b>1,586</b>	<b>+ 6.2 %</b>

(1) Including third parties

# ...our initiatives are supporting our growth...

***Our financial results in the 1H 2005 showed the results of our strategic initiatives implemented during the last three years intended to improve our market position and our competitive performance...***

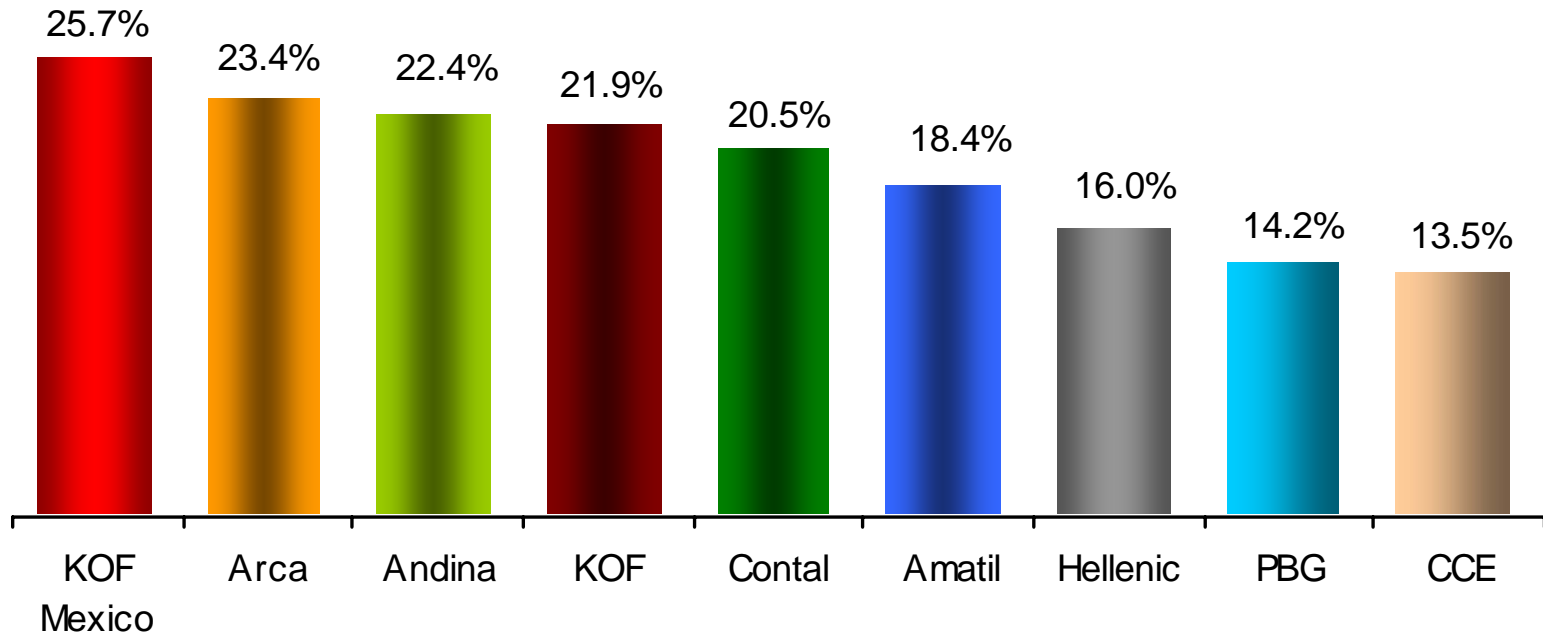


Note: All figures are in nominal Mexican pesos as of the reported year and converted into US\$ for the respective year end exchange rate.

...remaining one of the most profitable bottlers globally...

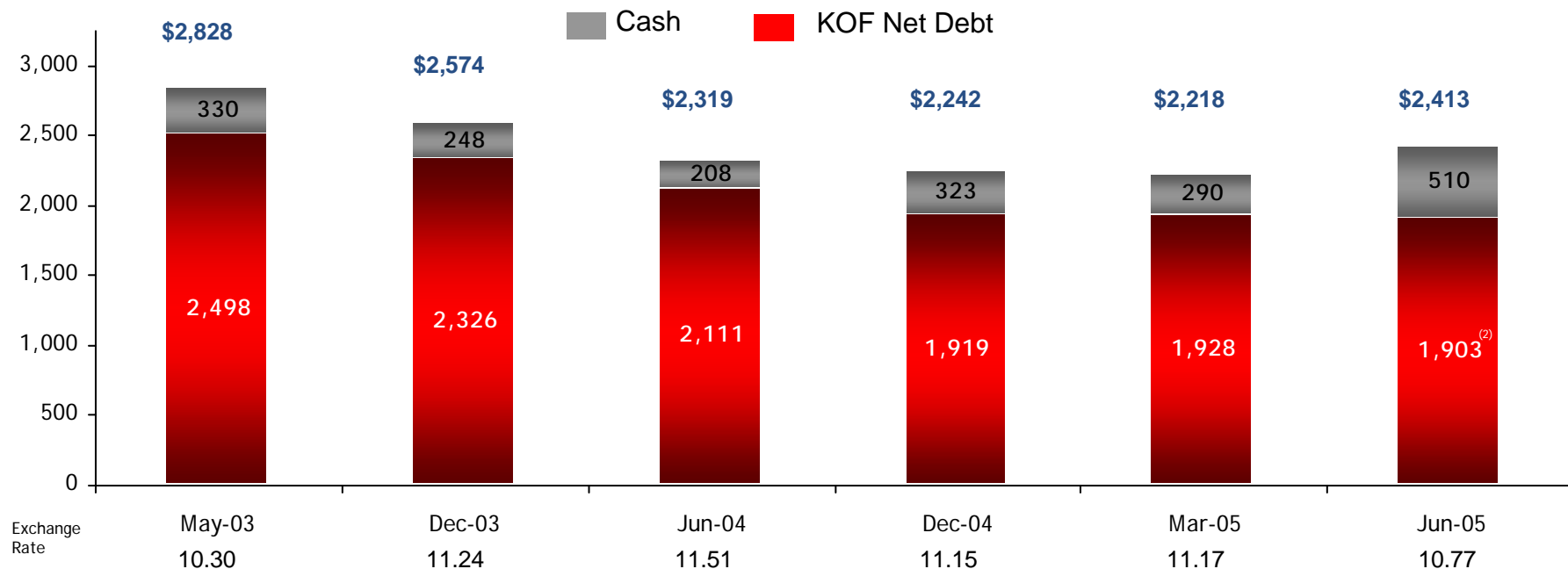
*Our profitability levels are one of the highest worldwide...*

LTM 05 EBITDA Margin



...with a healthy and strong balance sheet...

**After the acquisition we have managed to reduce net debt by US\$595 mm, equivalent to more than US\$25 mm per month since May 2003**



(1) Expressed in millions of U.S. dollars

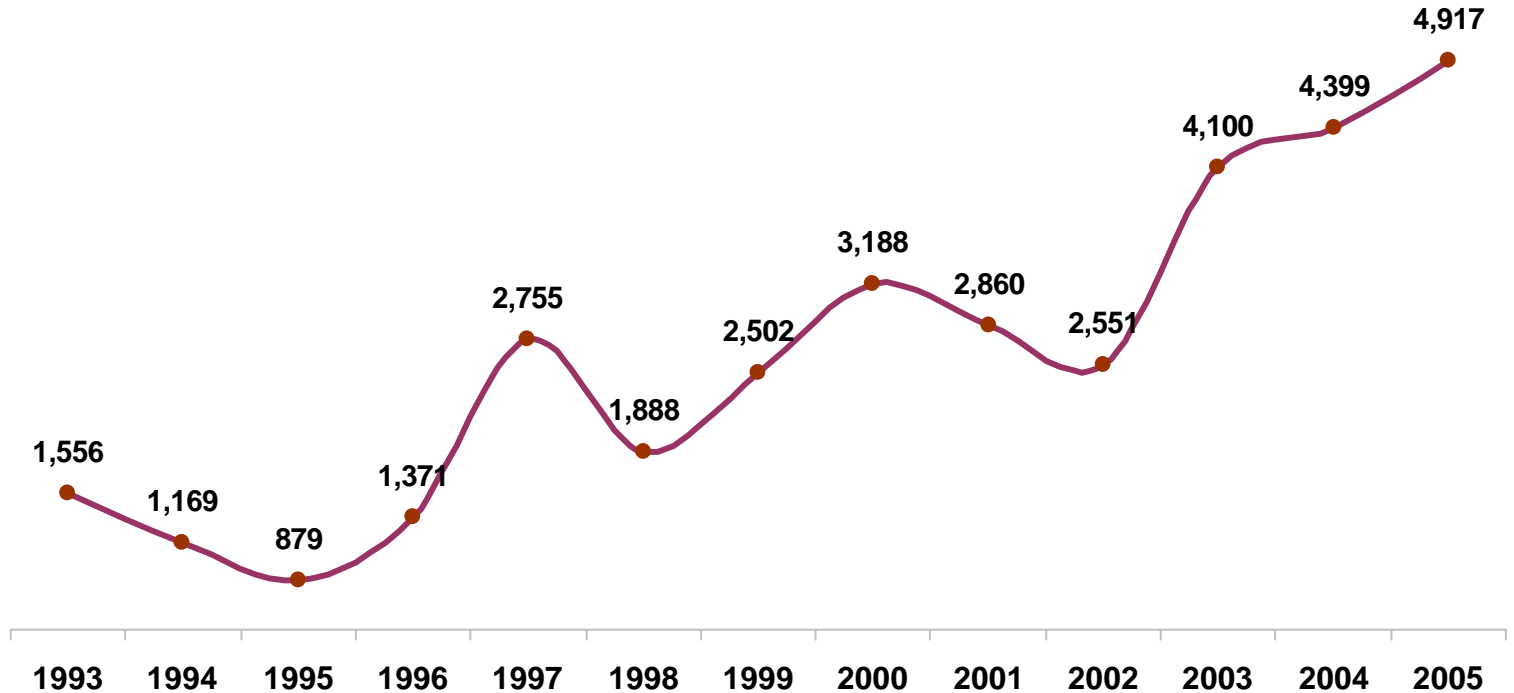
(2) Includes US\$118 mm of new debt acquired in part to refinance the maturity of one of our "Certificados Bursátiles" maturing on July 15, 2005 in the amount of US\$240 mm



# ... creating sustainable value for our stakeholders

***Our stakeholders have seen significant increases in their investment during the last decade...***

**Market Capitalization**  
(Million US\$)



**Stock Price <sup>(1)</sup>**    \$10.92    \$8.20    \$6.17    \$9.62    \$19.33    \$13.25    \$17.56    \$22.37    \$20.07    \$17.90    \$22.21    \$23.83    \$26.63

*(1): Prices as of December 31 of each year, except for 2003 when the price is as of May 6, 2003 and for 2005 the price is as of October 7, 2005  
Sources: Bloomberg and Company reports*

# Coca-Cola FEMSA



## Coca-Cola FEMSA - Mexico

October, 2005

**1. KOF Mexico**

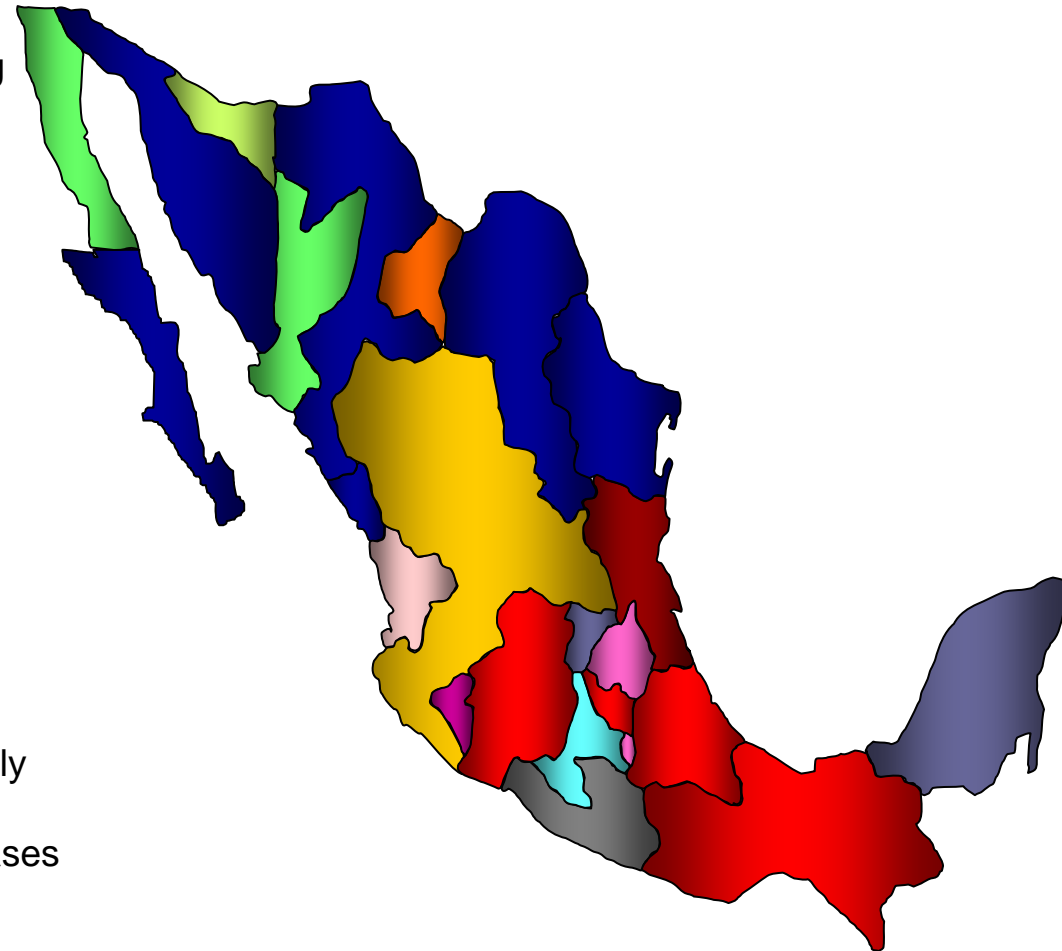
**2. Our Operating Transformation Process**

**3. Growth Opportunities**

# KOF Mexico importance for KOF and for KO system

The Company is the preeminent bottler of Coca-Cola products in Mexico representing, almost 50% of Coca-Cola volumes in the country

- The most important KOF operation, representing during the 1<sup>st</sup> Half of 2005:
  - Approximately 55% of total sales volume
  - More than 65% of EBITDA generation
  - 25.3% EBITDA margin, the highest in the industry
- Powerful geographic footprint in Mexico:
  - Serves more than 58 million consumers
  - Reaches more than 580,000 retailers weekly
  - Delivers on average over 2.7 million unit cases per day



# KOF Mexico Evolution

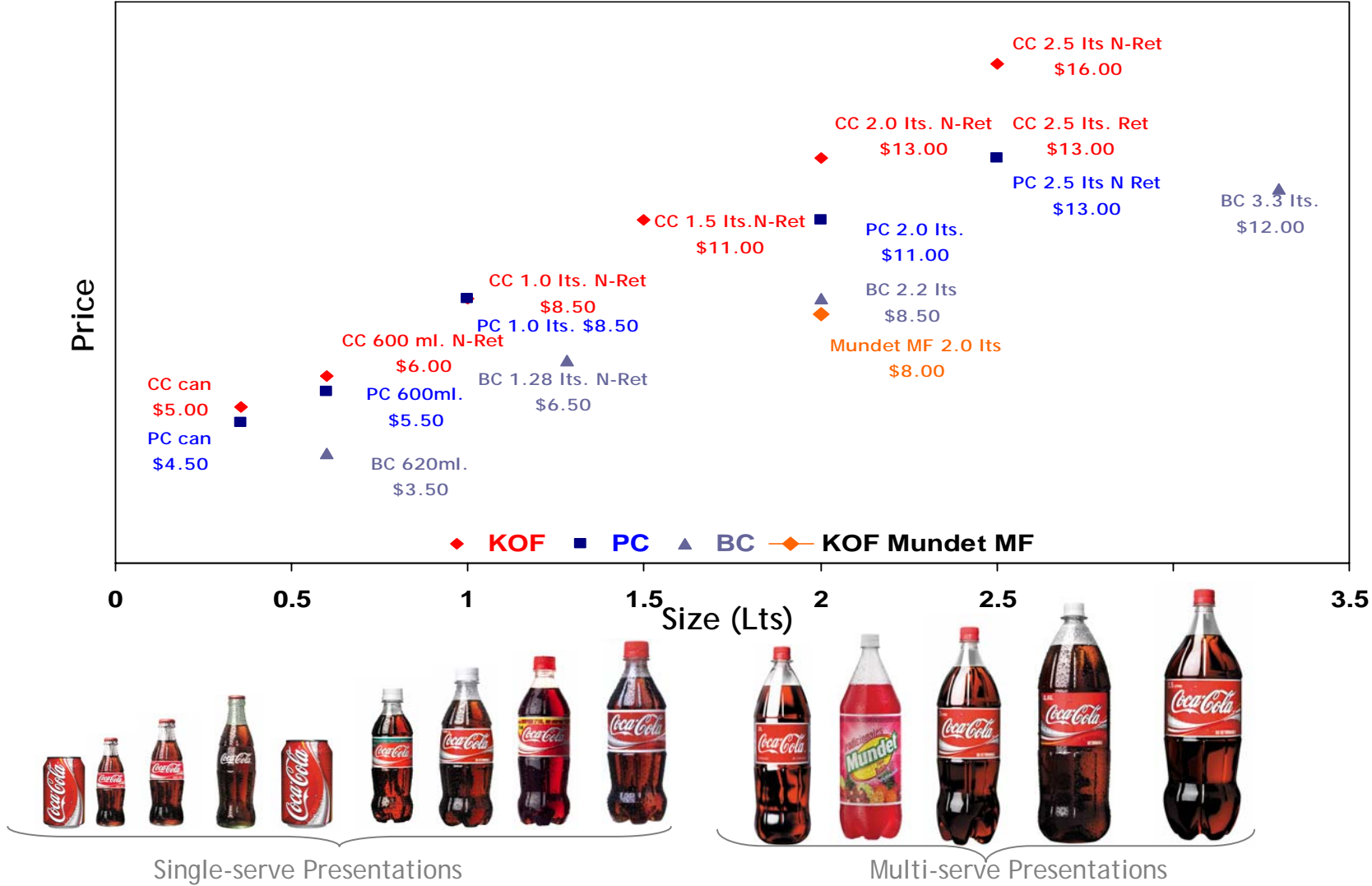
- During 2003 and 2004 we focused on integrating our new operations
- In these years we also adapted our packaging/product portfolio improving our competitive position

	2003 (May)	2004	2005*	Var. 03 - 05
Clients (000s)	552.4	574.6	585.9	6.1%
Cooler Coverage	66%	67%	67%	+1.0 pp
Plants	16	12	12	- 4
Distribution Centers	132	109	106	- 26
Line Efficiency (%)	78%	81%	83%	+5.0 pp

\* Figures as of June 2005

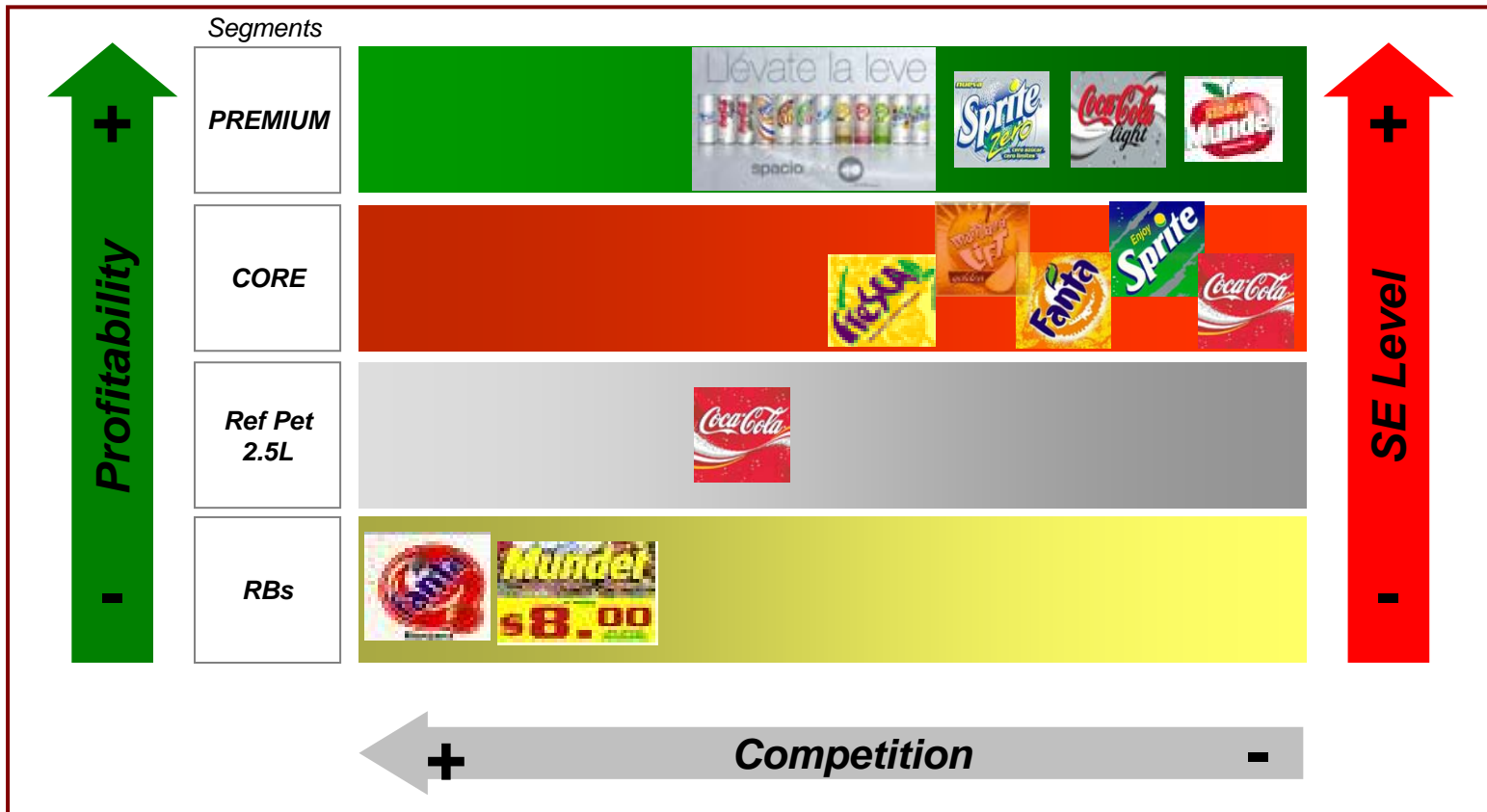
# Our "Portfolio of Choice"

- During the last two years we have redesigned our packaging portfolio, now offering more than 13 different packaging presentations for brand Coca-Cola in Mexico with different price points, from Ps. 3 up to Ps. 16
- Additionally, we are strengthening our flavor portfolio with the reintroduction of Mundet Multi-flavors as a regional brand player



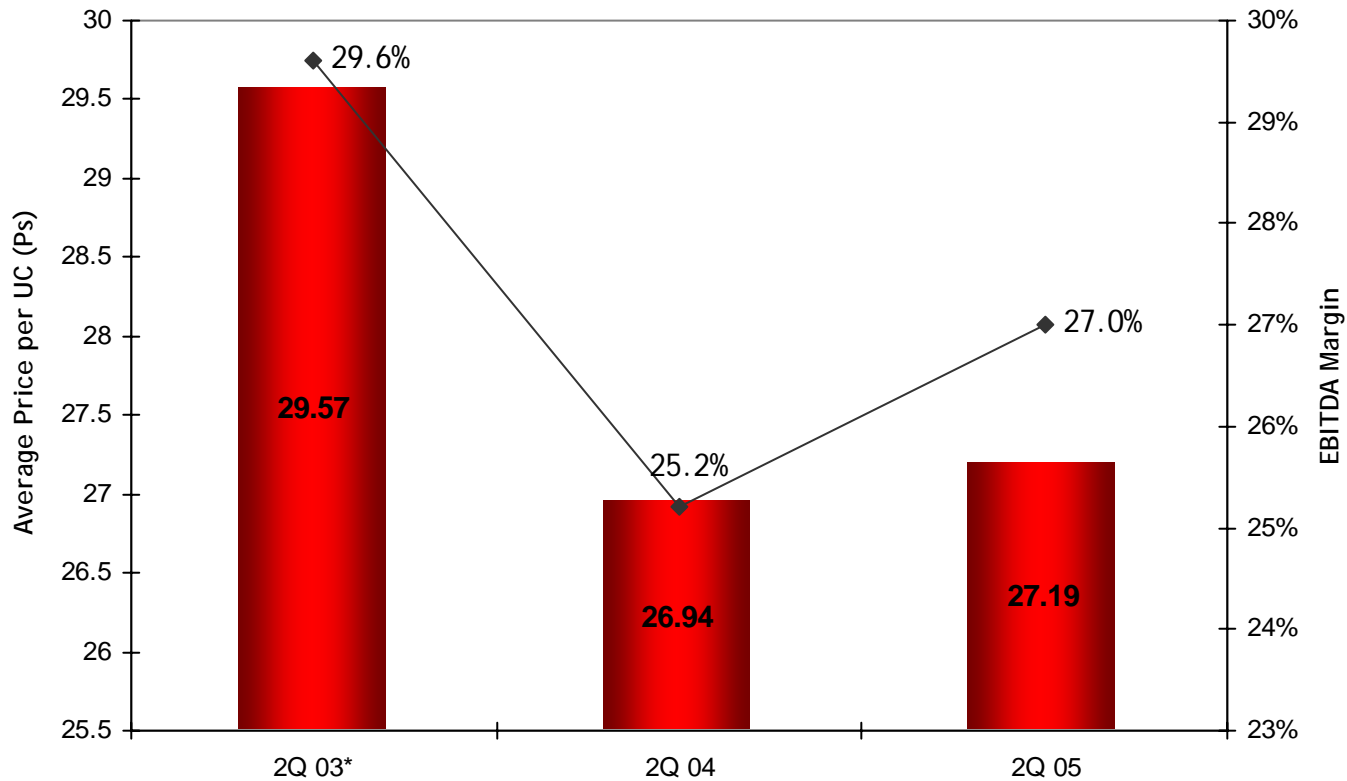
# Implementing a market multi-segmentation model...

- We have been developing an execution model segmented through a differentiated portfolio, adapting to the competitive environment of the country, like we did it in Argentina.
- The revenue management strategies implemented in Argentina, have provided us with a base of knowledge that we are now implementing in Mexico



# ... which is supporting our improvement in profitability

Consumption recovery together with a better packaging segmentation by channel is allowing us to capture more profitable volumes.



\* Proforma information, including three months of KOF original Mexican territories and two months of Panamco Mexico.



# Agenda

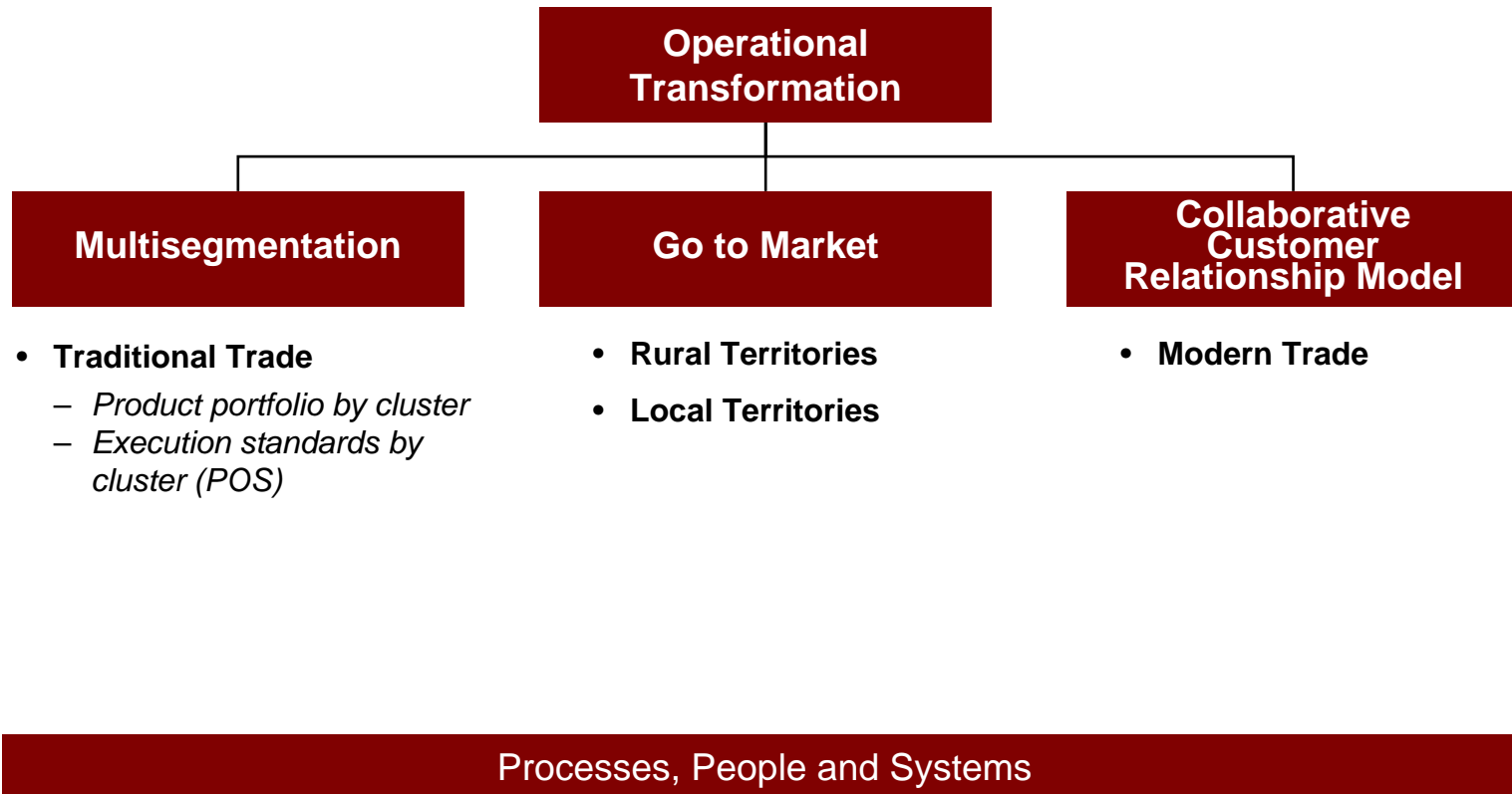
**1. KOF Mexico**

**2. Our Operating Transformation Process**

**3. Growth Opportunities**

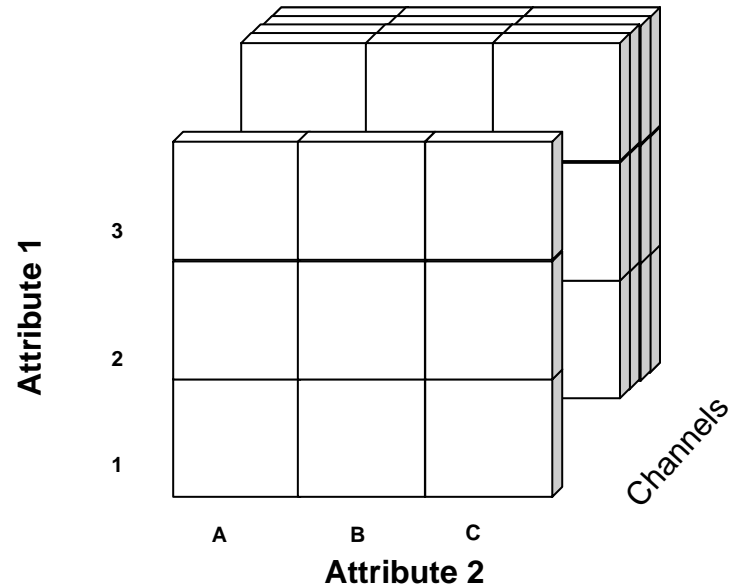
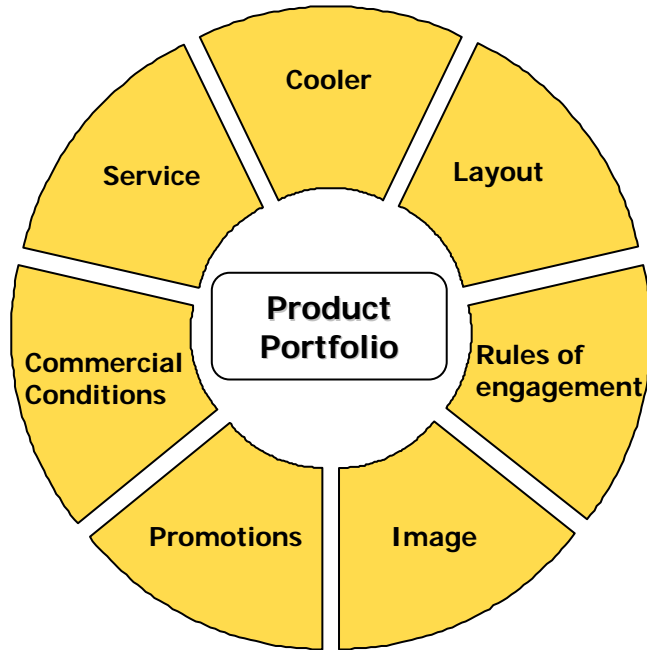
# KOF Mexico's Operational Transformation

In Mexico, we have started the Operational Transformation Project



# Multi-segmentation rationale

There are no average consumers, customers and competitors, therefore we should understand their differences and build clusters that share common characteristics

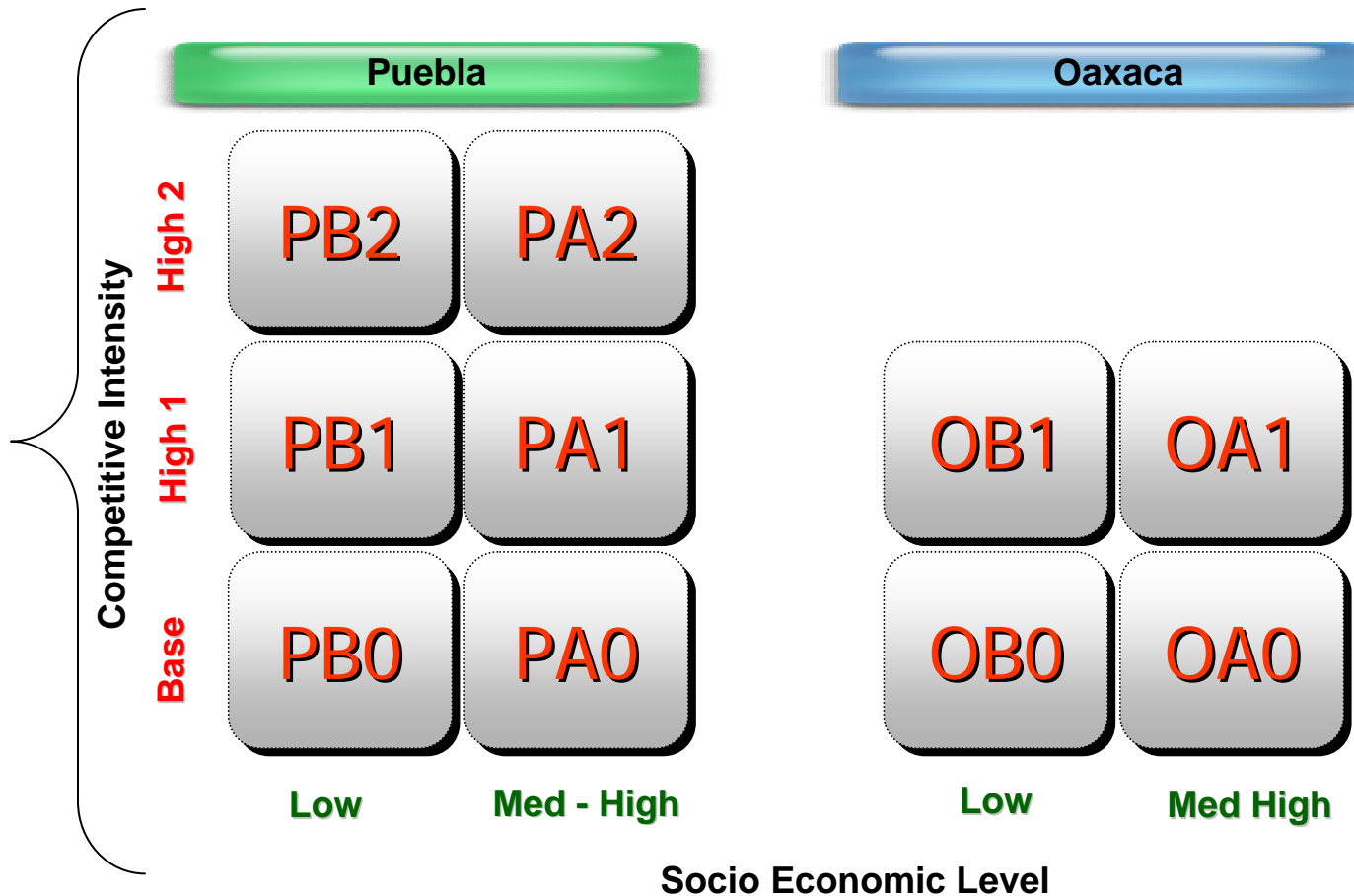


**Goal**

Define an operational model that develops the full set of capabilities required to segment and execute differentiated market strategies that can allow us to capture value growth opportunities across all clusters

# An example of our multi-segmentation strategy

- 2 Regions: Puebla and Oaxaca
- 2 Socioeconomic levels: low and Mid High
- 3 Competitive intensity: Base, High 1 and High 2



# Key for a successful implementation

To effectively manage the multi-segmentation strategy, we believe that the most critical factor is to have a robust operating model, comprised of processes, organization and systems...

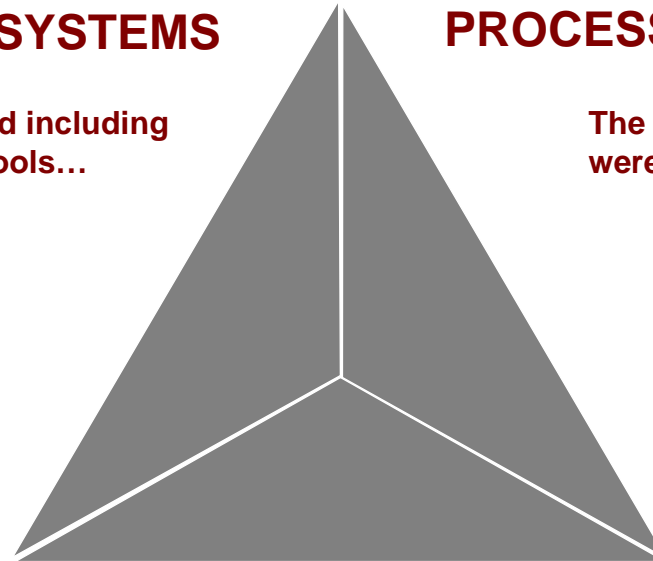
## SYSTEMS

A full set of systems was developed including planning, execution and tracking tools...

- SAP
- RED (Right Execution Daily)

## PROCESSES

The processes for each stage of the model were designed and divided in three groups



## ORGANIZATION



# Agenda

1. KOF Mexico
2. Our Operating Transformation Process
3. Growth Opportunities

# Growth opportunities

- Improve per capita consumption
- Opportunity to develop a segmented product portfolio, as in Argentina
- Foster single serve consumption through directed strategies
- Reinforce our portfolio of premium CSD's brand alternatives
- Opportunity to capture flavored carbonated soft drinks ("CSD's") growth with an ongoing pipeline of innovation
- Special focus in the non-carb segment with existing and new brands of the Coca-Cola Company
- Focus on bottled water profitability
- Favorable population and GDP growth

