Coca-Cola FEMSA 1998 Annual Report

How do we paint
the face of a classic?

with confidence!

COCA-COLA FEMSA

The largest Coca-Cola bottler in Mexico and Argentina, and one of only two Coca-Cola "anchor bottlers" in Latin America, providing a variety of popular soft drinks.

MAIN BRANDS:

Mexico: Coca-Cola, Fanta, Coca-Cola light, Sprite, diet Sprite, Fresca, lift, Delaware Punch, and Ciel.
Argentina: Coca-Cola, Coca-Cola light, Sprite, diet Sprite, Fanta, Quatro, and Kin.

LOCATIONS:

7 plants in the Valley of Mexico; 6 plants in Southeast Mexico; Villahermosa, Tab., Oaxaca and Juchitán, Oax.; Minatitlán, Ver., San Cristóbal de las Casas, and Tapachula, Chis.; and 2 plants in Buenos Aires, Argentina.

confidence in our capital structure in the markets where we trade

Our capital stock is owned 51% by a wholly-owned subsidiary of Fomento Económico Mexicano, S.A. de C.V (FEMSA), 30% by a wholly–owned subsidiary of The Coca-Cola Company and 19% by the public. The publicly traded shares of Coca-Cola FEMSA (KOF) are Series L shares with limited voting rights and are listed on the Bolsa Mexicana de Valores (BMV: KOFL) and as American Depository Receipts (ADR) on The New York Stock Exchange, Inc. (NYSE: KOF). Each ADR represents ten Series L shares.

At December 31, 1998 the capital stock of Coca-Cola FEMSA, after the effect of a three-for-one stock split effective January 28, 1998, was represented by 1,425 million shares.

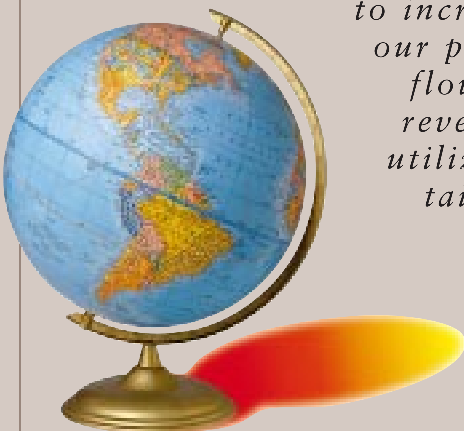
BOLSA MEXICANA DE VALORES

confidence in the markets we serve

Coca-Cola FEMSA bottles and distributes Coca-Cola trademark products in the Valley of Mexico (Mexico City and surrounding areas), the Southeast of Mexico (the states of Oaxaca, Tabasco, and Chiapas, and some areas of the State of Veracruz), and in greater Buenos Aires, Argentina.

In Mexico, where the primary point of sale is the small family-owned retailer, KOF grew sales volume by 19.7%, reaching 401.1 million unit cases (MUC). This growth can be linked to KOF's strong relationship with the network of retailers. From our tailored incentive programs to the design of cold drink refrigeration units to better suit retailers' needs, KOF works daily to maximize our sales growth.

KOF also grew sales volume in Argentina by 14.8%, reaching 118.4 MUC during 1998. The addition of the Pilar Territory (within greater Buenos Aires) in June 1998, represented 4.5 MUC of the total volume growth. With approximately 37% of sales volume distributed through supermarkets and hypermarkets, KOF has worked aggressively both to manage this channel effectively and to increase the on-premise consumption of our products. KOF optimizes its revenue flow through channel marketing and revenue management. These strategies utilize price, packaging and promotions tailored for a specific point of sale.



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Correo Argentino
Suc. 37 (B.A.)
FRANQUEO A PAGAR
Cta. Nº 10637

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confidence in our people and technology

Together, our employees and cutting edge technology help Coca-Cola FEMSA maximize our profitability.

KOF recruits the best people, provides them with continuous training and education, and ensures their success through a performance based compensation system. This investment in our employees allows KOF to run our state-of-the-art operations with high-energy people who are committed to teamwork and success.

Strength in human resources is vital in the use of technology. From the purchasing of raw materials to the pre-sell and delivery of our products, technology is a fundamental tool. KOF utilizes a number of information systems, including an enterprise resource planning system and a specialized logistical software package.

confidence in our integrated logistics

In 1998, KOF produced and distributed 519 MUC in Mexico and Buenos Aires. Given this volume and a combined total of 61 different presentations of our 15 brands, KOF relies on its sophisticated production and distribution network.

This network is driven by the information gathered at every point of our business process. At the point of sale, our salespeople use hand-held computers to upload market and customer data, and at our plants and distribution centers we upload delivery and production planning information. Together, this information helps us build a database that allows KOF to better understand, respond and anticipate the demands within the markets we serve. We believe that this information is vital for the continual improvement of our operations.

	Valley of Mexico	Southeast Mexico	Buenos Aires
Number of plants	7	6	2
Number of production lines	24	10	8
KOF routes	1,157	423	274
Third parties	—	—	53
Distribution centers	19	35	5
Capacity (million unit cases)			
Installed	416.4	137.0	189.0
% Utilized	75.13	61.48	62.11
% Market share:			
Cola segments	75.3	77.1	77.7
% Mix:			
Returnable	48.0	60.8	10.8
Nonreturnable	50.0	38.8	83.3
Post-mix	2.1	0.4	5.9

Coca-Cola
light
Coca-Cola
light
Fanta
Ciel
NO RETORNABLE
RETORNABLE
MANZANA
diet
Sprite
Coca-Cola

confidence in our marketing world class Coca-Cola brands

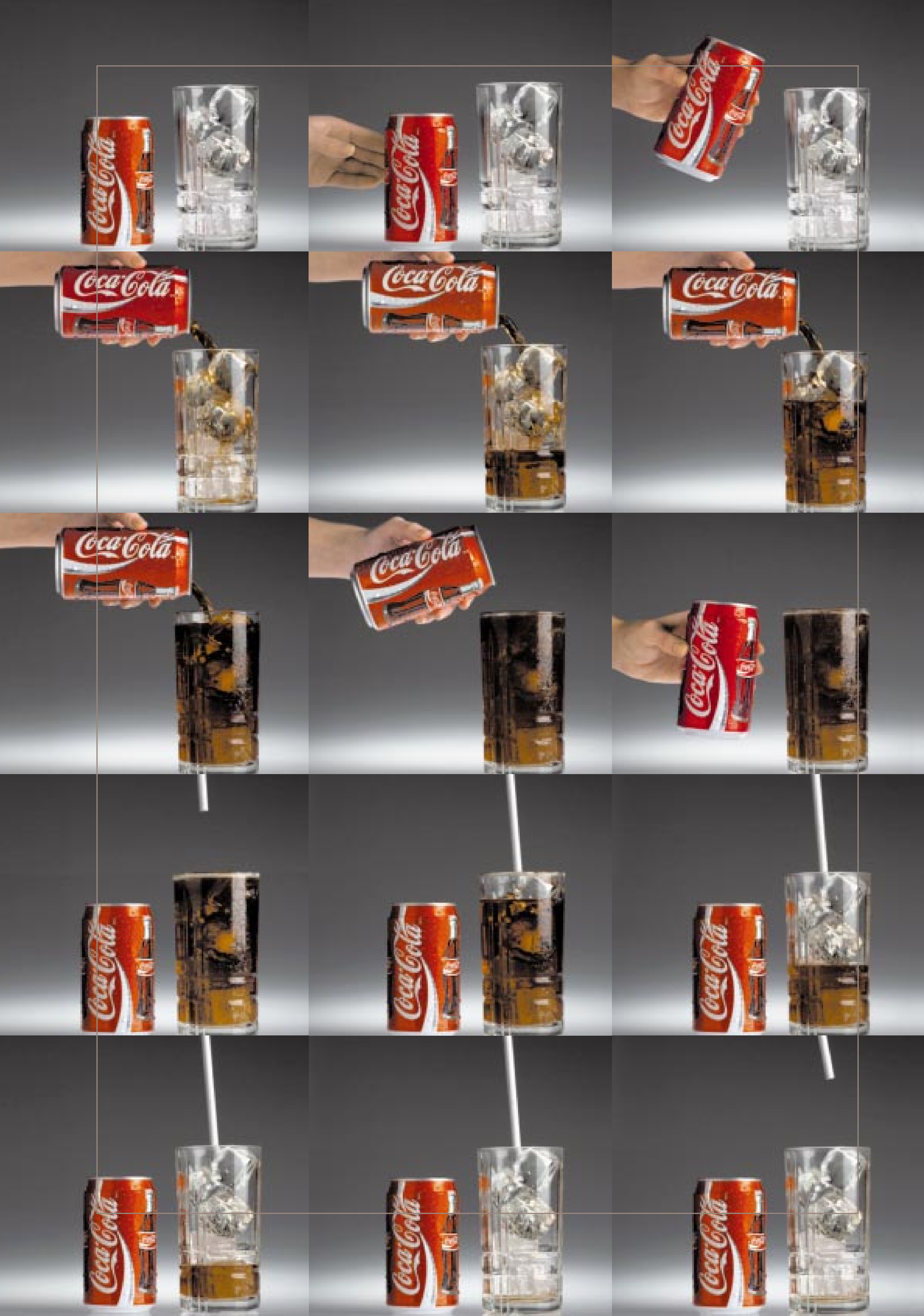
confidence

As one of the largest soft drink bottlers in the world, Coca-Cola FEMSA markets the world's most recognizable brand name. In Argentina and Mexico, we strive to support all the Coca-Cola trademark brands that we produce and build brand equity. Our strategy is supported by a wide range of programs, including outdoor signage, promotional product give-aways, and cold drink refrigeration units.

confidence in our role as a Coca-Cola anchor bottler

Coca-Cola FEMSA represents 24% of total Coca-Cola Company sales in Mexico and 34% of the Company's sales in Argentina. In our markets, KOF accounts for approximately 75% of the cola sales in the Valley of Mexico, 77% in the Southeast Territory, and 78% in Buenos Aires. In Latin America as a whole, KOF sells 12% of the total volume of The Coca-Cola Company and 3% of The Coca-Cola Company's total global sales.

As an anchor bottler, Coca-Cola FEMSA is a long-term player in the Coca-Cola system with a proven record of success in challenging markets such as Argentina and Mexico.


Coca-Cola

Financial and Operating Highlights

SALES VOLUME
(Millions of Unit Cases)

TOTAL REVENUES
(Millions of Pesos)

TOTAL ASSETS
(Millions of Pesos)

INCOME FROM OPERATIONS
(Millions of Pesos)

NET INCOME
(Millions of Pesos)

EBITDA
(Millions of Pesos)

COCA-COLA FEMSA, S.A. DE C.V. AND SUBSIDIARIES

Millions of Pesos or U.S. Dollars (except volume and per share data)	1998 (Ps.)	1998 ($US.)	1997 (Ps.)	% Change	1996 (Ps.)	% Change
Total revenues	**12,718**	**1,287**	11,187	13.7 %	10,199	9.0 %
Net income	**647**	**66**	851	-23.9 %	714	19.0 %
Total assets	**10,661**	**1,079**	10,138	5.2 %	9,628	5.0 %
Long-term debt	**3,017**	**305**	2,978	1.3 %	3,531	-15.0 %
Total stockholders' equity	**5,043**	**510**	4,666	8.1 %	4,055	15.0 %
Sales volumes (million unit cases)	**520**	**520**	438	18.7 %	381	15.0 %
Capital expenditures[(1)]	**1,432**	**145**	1,367	4.8 %	1,433	(4.6) %
Book value per share[(2)]	**3.539**	**0.358**	3.274	8.1 %	2.845	15.0 %
Net income per share[(2)]	**0.454**	**0.046**	0.575	-21.0 %	0.478	20.0 %

(1) Includes investments in property plant and equipment, bottles and cases, and deferred charges.
(2) Based on 1,425 million shares outstanding

Notes: In order to eliminate the effects of inflation from the figures of previous periods at Coca-Cola FEMSA and its Mexican subsidiaries, and of devaluation on Coca-Cola FEMSA Buenos Aires, the financial information presented in this report is expressed in Mexican Pesos with purchasing power of December 31, 1998.
Coca-Cola FEMSA Buenos Aires keeps its financial records in Argentine Pesos. In order to consolidate these records with those of the Mexican subsidiaries, Argentine Pesos are translated into Mexican Pesos using the year-end exchange rate.
Information related to sales share in the territories where we operate is based upon statistics, assumptions and estimations made by Coca-Cola FEMSA with the aid of The Coca-Cola Company.

confidence in our financial position

In 1998, Coca-Cola FEMSA had another year of strong financial performance. Consolidated total revenue increased to Ps. 12,718 million (US$1,287 million*), an increase of 14% over 1997 total revenue. Consolidated net income reached Ps. 647 million (US$ 65 million). This income equates to Ps. 0.45 earnings per share or US$ 0.46 per ADR.

KOF continued to strengthen its balance sheet in 1998. With an EBITDA to net interest expense ratio as of year-end 1998 of 5.65 times, we are confident in our ability to manage our outstanding debt of US$413 million. In 1999, our financial strategy is to continue to reduce our debt position and increase our cash reserves.

** All dollar figures are calculated using the exchange rate at December 31, 1998 of Ps. 9.88 to US$1.00.*

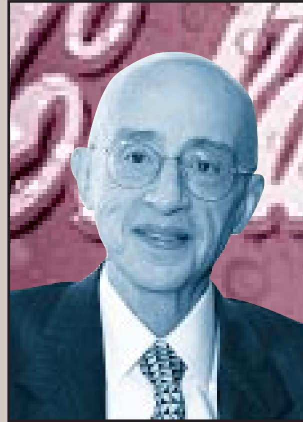
confidence in our Y2K preparation

Coca-Cola FEMSA has been preparing for the Year 2000 for the past two years. Successful implementation of the SAP package software and use of Coca-Cola proprietary sales and distribution systems enabled us to keep our expenses related to the Y2K solution to US$200,000 at year end 1998. Our expected completion date is July 1999 and we estimate that the total cost will be US$450,000.

Confidence in our plans for asset utilization, revenue management and building brand equity

The senior management of Coca-Cola FEMSA review the past year and discuss our strategic initiatives for 1999.

Eugenio Garza Lagüera,
Chairman of the Board



Alfredo Martínez Urdal,
Chief Executive Officer

At Coca-Cola FEMSA we have worked diligently to provide our employees, customers and shareowners consistent growth and returns. We committed to three principal strategic objectives last year: efficient use of assets, proactive revenue management and increased support of brand equity to ensure our continued growth into the year 2000 and beyond.

Working in two different emerging markets, our aim has been to identify new ways to capitalize on the numerous challenges and opportunities present in Mexico and Argentina. One example of our commitment to our consumers is the construction of a new one-way product bottling plant in Toluca, Mexico. Phase One of the plant, a US$67 million investment, completed the first four bottling lines. This new plant provides state-of-the-art production and distribution facilities to deal effectively with our steady growth in the Mexican market.

FOCUSING OPERATING UNITS ON EFFICIENT USE OF ASSETS

Our organization moved 519.4 million unit cases last year. We produced and distributed these products quickly and effectively, by making efficient use of our human, capital and technological assets. In Mexico, we continue to streamline our bottling operations, reducing costs and improving our productivity. In Buenos Aires, we have also put in place the controls that allowed us to reduce operating costs and increase utilization of capacity already in place. In both markets, our hard work translates into improved efficiencies and greater profitability.

REVENUE MANAGEMENT AS A KEY ELEMENT OF MARGIN GROWTH

With revenue management, a strategy for utilizing price, packaging and promotions tailored for a specific channel, coupled with data from our management information systems, KOF knows what products to send where at what time. This knowledge allows us to manage our revenue flow and increase margin growth on our products.

ACTIVATING OUR CONSUMER TO BUILD BRAND EQUITY

Our trademark brands are a fundamental element of our success. Building brand equity requires "activating the consumer," working to help them identify with the Coca-Cola brands. We have made the Coca-Cola brand a part of the landscape and lifestyle in Mexico and Argentina, with our products becoming a visible part of the social fabric at holidays, celebrations and sporting events.

PREPARED FOR GROWTH, BOTH ORGANIC AND THROUGH CONSOLIDATION

Our goal is to continue to enjoy volume growth in our existing operations in Mexico and Buenos Aires. We also expect to play a continuing key role in the consolidation of the soft drink bottling industry in Latin America. We are working with The Coca-Cola Company to explore the consolidation opportunities in Latin America. At Coca-Cola FEMSA, we will continue to consider acquisition opportunities that will add value for our shareholders.

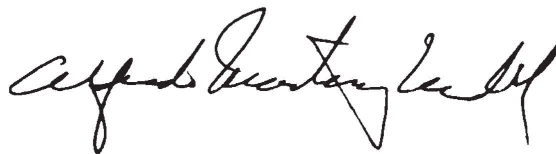
CONFIDENCE IN OUR STRATEGIES TO BUILD VALUE

We transfer expertise from one territory to the other in our effort to build better operations across our organization. Mexico excels in logistics, and building and supporting profitable volume. Buenos Aires sets the standard in revenue management, efficient use of assets and cost cutting. The practice of shared knowledge will help us to operate more profitably in 1999.

In the final analysis, we all want value in our investment. We have confidence in our strategies to produce value by efficiently using our assets, effectively revenue-managing and activating our consumer to build strong brand equity.

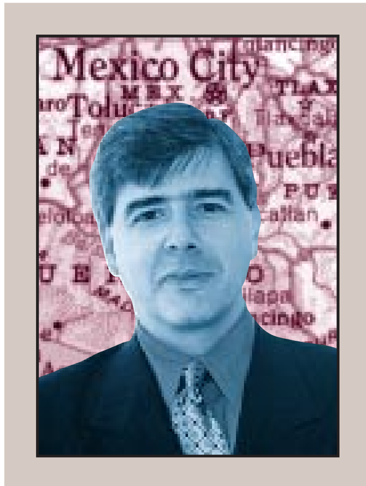
Finally, we want to thank you, our fellow shareowners, for the trust you have placed in our ability to create consistent growth and returns.

Eugenio Garza Lagüera
Chairman of the Board

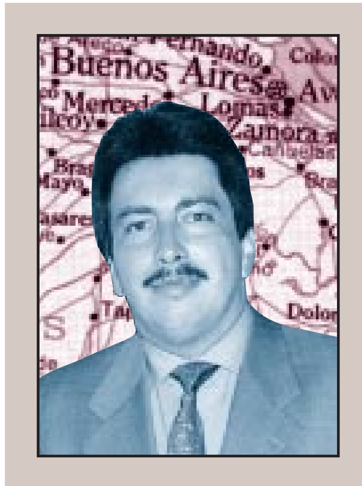


Alfredo Martínez Urdal
Chief Executive Officer

From Our Chief Operating Officers



John Santa María Otazúa
Chief Operating Officer-Mexico



Rafael Suárez Olaguibel
Chief Operating Officer-Buenos Aires

Our operating results during 1998 were outstanding. In a challenging economic environment, Coca-Cola FEMSA (KOF) increased sales volume, sales share and operating profitability in our three major markets. Concurrently, we modernized and expanded our operating facilities, increased productivity, and improved information management systems.

VOLUME GROWTH DRIVES OPERATIONS IN MEXICO AND BUENOS AIRES

Over the last two years, our organic volume growth in Mexico reached 112.7 million unit cases. These additional cases represent more volume than our Buenos Aires franchise sold in 1994, when we entered that market.

To place this growth in perspective, we were operating on average at a level of 361,027 physical cases per day in 1995. Today, we handle 481,134 cases per day, an increase of 36.2%. This additional volume does not include the 9.5 million unit cases (MUC) sold in the Tapachula area (acquired in November 1997) during 1998.

During 1998, for the first time since entering the greater Buenos Aires market, the Company grew comparable volumes 10.4%. Including the additional volume of the new Pilar territory, volumes grew 14.8% during the year. We demonstrated the ability to drive growth in the Argentine market through strong brand management and leveraging cooperative marketing programs with The Coca-Cola Company. To Coke's brand expertise, KOF adds understanding of our market channels and their variables, including strategic pricing.

IMPROVED REVENUE MANAGEMENT INCREASES PROFITABILITY

Along with continued volume growth, KOF is focusing on the management of revenues of current volumes. Revenue management is based on the idea that the same product and service at different times and occasions has a

different value to a consumer. This concept is already practiced by our clients, but is new to the Coke system where traditionally there was uniform pricing throughout a franchise for any given product.

Restaurants are a classic example of a revenue management strategy adopted at the point of sale. Here, the restaurant knows that consumers are willing to pay a higher price for beverages in order to consume them on-premise. Supermarkets, in their pricing strategy, will often use the strength of the Coca-Cola brand and a discounted price to build traffic. In both instances, the price of the product is manipulated at the point of sale in order to increase profits for the vendor.

KOF views revenue management not only as one of its main marketing challenges, but also as a formula to increase shareholder value. We are exploring revenue management techniques to increase our revenue per case by using channel marketing, multi-packaging related to specific channels, and cross-promotions to enhance value and price differentiation based on brand equity.

ADVANCED MANAGEMENT INFORMATION SYSTEMS FACILITATE GROWTH IN VOLUMES AND PRODUCTIVITY

With better management information systems, KOF can manage the significant increase in volumes with fewer plants, people, and trucks. In Mexico, we met the high volume demand that we experienced in 1998 with 13 bottling plants and 54 distribution centers. Mexico City, our largest market, is among the most complex soft-drink markets in the world, serving a market of 17.8 million people through over 135,000 retailers. The primary sales channel in the territory is small, family-owned retail outlets. In this challenging environment, it is vital that we know who our client and consumers are and how to service them best. KOF uses sales and distribution information systems to gather and analyze market, client, and consumer information. We then utilize this information to deliver our products with the best level of client service and at the lowest possible cost.

We have learned in both Buenos Aires and Mexico that the starting point for the information gathering process is with our pre-sellers and their use of hand-held computers. Pre-sellers are the people who, among other duties, take advance product orders to ensure that the customer receives the products they need. From the pre-seller, we integrate information from the different facets of our operation; distribution, warehousing, production, material resource planning and accounting. To utilize all this data effectively, KOF has implemented an enterprise resource planning system and interfaced it with both our sales and logistical software packages.

In Buenos Aires, where KOF first started using the pre-sell program and hand-held computers to gather information, we have moved further to integrate activity based costing (ABC) with our enterprise resource planning system. This integration allows for a particularized view of each of our distribution and production variables. We now have the ability to see profitability by product, package and distribution channel. During 1998, we also began to utilize ABC in Mexico and we anticipate seeing positive results from our efforts in 1999.

The advanced management information systems utilized by KOF, both in Mexico and Buenos Aires, also work to improve our production line utilization, distribution center efficiencies, and our management of working capital.

Integrating our logistics and on-line inventory management systems–recording what is in-plant, in transit to a distribution center or loaded on a truck en route to a customer –allows us to program in cycles of one month, one day–even to the hour. This input then goes to a material resource-planning

program, making certain the right raw materials and supplies are ordered and in place when needed for production.

Our Mexican operations are accelerating the pace at which they use technology. We are working now to implement a new logistical software that will allow us to move our daily volume more quickly, at a lower cost and with increased responsiveness to our customers. In addition, the combined sales and distribution information is integrated with our production systems to produce more accurate demand forecasting.

Our transfer of knowledge in the area of management information systems is a good example of how KOF is building stronger operations.

INCREASING ASSET UTILIZATION WITHIN OUR FACILITIES IMPROVES PRODUCTIVITY AND EFFICIENCY

Today, our advanced information systems allow the Company to react to market changes and prepare contingency plans quickly. As our production and distribution facilities transition successfully to a continuous, 24-hour, seven-day operation, we are utilizing the logistics software programs to integrate them fully. At the same time, KOF's initiatives to align our distribution centers with our plants are now in process and will improve the utilization of our assets significantly.

To reach our asset utilization goals, KOF must continually improve efficiency. In Mexico, the Toluca plant coming on-line was a major milestone. Its four bottling lines provide one-way product capacity needed to meet the growing demand for these products, in a modern facility that will increase our operating efficiency. And in Buenos Aires, where our product mix has moved from 36% non-returnable to 90% non-returnable during the last three years, we have increased our unit case per employee ratio from 36,298 to 47,937 unit cases.

In each of our three territories, KOF trains managers to understand how to utilize the assets under their management efficiently. In addition to this training, their compensation is tied to productivity gains and value creation

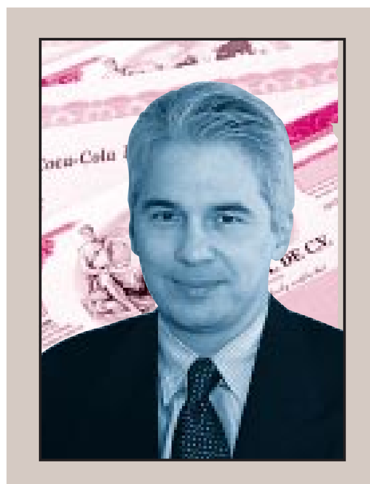
MOVING FORWARD

As we move into 1999 and beyond, KOF will continue to develop and implement the strategies that help us to operate more efficiently and make the best use of our assets. These strategies include improved revenue management, integration of information systems, and the increased utilization of our fixed assets to continue our growth in volumes and operating profitability. We believe that implementing our goals is a demanding endeavor, but we gladly take on the challenge in order to continue to provide increased value to our shareholders.

John Santa María Otazúa
Chief Operating Officer-Mexico

Rafael Suárez Olaguibel
Chief Operating Officer-Buenos Aires

From the Chief Financial Officer



Héctor Treviño Gutiérrez
Chief Financial and Administrative Officer

TO OUR SHAREHOLDERS

Looking back at 1998, I am proud of our accomplishments at Coca-Cola FEMSA. In both Mexico and Buenos Aires, we were able to build upon our previous accomplishments, face new challenges and finish the year with a strengthened financial position. In Buenos Aires, we achieved a reasonable level of profitability in a difficult pricing environment. Despite an average unit case price decrease of 9.5% during the year, operating profits increased, reaching US$29.2 million. This was the result of our initiatives to streamline and improve our operations. Our continued efforts in these areas will work to further increase shareholder value in 1999. In Mexico, our ability to drive strong volume growth led to an increase in total revenues of 18.9%. An improvement in Mexican cash operating profit of 15.4% was another signal of our organization's health and commitment to increasing shareholder value.

Our accomplishments are borne out in our financial statements. Consolidated total revenues reached Ps. 12,718.3 million (US$1,287.1 million[1]), an increase of 13.8% over 1997 revenue. Consolidated net income reached Ps.647.3 million (US$65.5 million). This income equates to Ps. 0.454 earnings per share or US$0.459 per ADR.

FINANCIAL STRATEGY AS A KEY TO OUR SUCCESS

At Coca-Cola FEMSA, solid financial planning is an integral element of our overall strategy. While we are working to streamline our distribution and production processes, the Company strives to have the capital resources available and in place when needed. We feel that with our strong operating performance and solid financial position, as reflected in our debt

[1]Dollar figures are calculated using the exchange rate at December 31, 1998

service coverage ratio[2] of 5.65 times, gave us better leverage in financial markets when we sought to refinance 1998 maturities. Even in unfavorable market conditions for most emerging market companies, we negotiated credit at favorable rates. An important variable in obtaining this financing was our on-going communication with our shareholders and other members of the financial community.

Investors have confidence in Coca-Cola FEMSA because of our solid financials and also because we have actively sought to build an open relationship with the financial community. Providing timely and reliable information to keep them abreast of our progress is crucial. During 1998, we participated in a number of conferences and met with many more investors face-to-face than in the past. As we move forward, the Company will continue its efforts to maintain good relations with the financial community.

TECHNOLOGY FOR MAXIMIZING OUR ASSET UTILIZATION

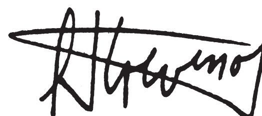
To meet the challenges of an increasingly complex business environment, the Company has made significant investments in technology to improve our operations, including production, distribution and sales systems. Investing in technology pays off by providing real-time information that improves our decision making process and helps us to make the best and most efficient use of our assets. In the administrative area, this investment has translated into the implementation of accounting, administrative and financial modules of SAP, an enterprise resource planning software. Our advanced management information systems provide us better information more quickly, a distinct advantage that helps our people not merely react to market conditions but to anticipate them.

[2]EBITDA to net interest expense

FUTURE OUTLOOK

As an anchor bottler, Coca-Cola FEMSA has worked closely with The Coca-Cola Company and shares many of the same strategic goals for the development of the nonalcoholic beverage business. In Mexico and Buenos Aires, we provide service to a large, geographically diverse area and are committed to long-term growth through the consolidation of the Coke system. Perhaps most importantly, the Company has sufficient management and financial strength to make the long-term investments required for achieving such growth.

During 1999, Coca-Cola FEMSA faces a challenging economic environment, but we continue to strive to increase shareholder value. We have a firm financial position to support our operations, and I am confident that KOF will continue to provide our shareholders continued growth in our financial results.



Héctor Treviño Gutiérrez
Chief Financial and Administrative Officer

Coca-Cola

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Five Year Summary

TRANSLATION OF A FINANCIAL STATEMENT ORIGINALLY ISSUED IN SPANISH

Millions of Constant Mexican Pesos (Ps.) as of December 31, 1998.

	1998	1997	1996	1995	1994
INCOME STATEMENT					(1)
Total sales	Ps. 12,718	Ps. 11,187	Ps. 10,199	Ps. 9,636	Ps. 7,782
Cost of goods sold	7,070	6,130	5,805	5,529	3,974
Gross margin	5,648	5,057	4,394	4,107	3,808
Operating expenses (2)	3,937	3,514	3,427	3,351	2,803
Goodwill amortization (3)	117	95	89	49	11
Income from operations	1,594	1,448	878	707	994
Integral cost of financing	343	186	46	50	124
Other income (expenses)	(220)	(146)	87	103	87
Taxes	384	265	205	192	350
Consolidated net income	647	851	714	568	607
Majority net income	647	819	681	514	542
Minority net income	—	32	33	54	65
RATIOS TO SALES (%)					
Gross margin	44.8	45.6	43.3	42.9	48.9
Operating margin	12.5	12.9	8.6	7.3	12.8
Net income	5.1	7.6	7.0	5.9	7.8
CASH FLOW					
Gross cash flow (EBITDA) (4)	2,413	2,359	1,693	1,409	1,300
Capital Expenditures Pesos (5)	1,432	1,367	1,433	1,399	938
Capital Expenditures Dollars (5)	$ 145	$ 138	$ 145	$ 142	$ 95
BALANCE SHEET					
Current Assets	1,417	1,397	1,666	1,236	1,365
Fixed assets	6,690	6,231	5,998	5,858	5,440
Deferred charges	471	458	263	96	160
Goodwill (3)	1,916	1,924	1,613	1,485	944
Inv. in associated companies	167	128	88	19	30
Total Assets	10,661	10,138	9,628	8,694	7,939
Liabilities					
Short-term debt	1,064	969	77	116	886
Long-term debt	3,017	2,978	3,531	3,433	1,369
Interest payable	73	72	76	60	58
Operating liabilities	1,256	1,283	1,231	896	989
Labor liabilities and other long-term liabilities	208	170	152	166	176
Total Liabilities	5,618	5,472	5,067	4,671	3,478
Stockholders' equity	5,043	4,666	4,561	4,023	4,461
Majority interest	5,043	4,666	4,054	3,652	4,142
Minority interest	—	—	507	371	319
FINANCIAL RATIOS (%)					
Current	0.59	0.60	1.20	1.15	0.71
Leverage	1.11	1.17	1.11	1.16	0.78
Capitalization	0.51	0.52	0.45	0.48	0.39
Coverage	5.44	7.07	5.40	5.58	18.56
DATA PER SHARE (6)					
Book value	3.539	3.274	2.845	2.563	2.907
Majority net income	0.454	0.575	0.478	0.361	0.380
Dividends paid (7)	0.116	0.091	0.050	0.045	0.048
No. Employees	15,003	14,154	14,226	14,147	14,427

(1) Includes operations generated by Coca-Cola FEMSA de Buenos Aires, since the date of its acquisition (September 1994).
(2) 1998 figure includes the fixed asset adjustment originated by the writedown in the value of the computer equipment and information systems.
(3) Goodwill generated by the acquisition of Coca-Cola FEMSA de Buenos Aires.
(4) Income from operations plus non-cash charges.
(5) Includes bottles and cases, deferred charges, property, plant and equipment.
(6) Based on 1,425,000,000 shares.
(7) Dividends paid during the year based on the prior year's net income.

Management's Discussion and Analysis

RESULTS OF OPERATIONS FOR 1998 COMPARED TO 1997.

Net Sales

Coca-Cola FEMSA (the Company) recorded net sales of Ps. 12.607 billion in 1998, a 13.8% increase relative to Ps. 11.079 billion recorded in 1997. Total revenues increased by 13.7% to Ps. 12.718 billion in 1998 from Ps. 11.187 billion in 1997. Net sales growth was driven by volume growth in both the Mexican and the Buenos Aires territories.

Sales volume in the Mexican territories grew by 19.7% to 401.2 million unit cases and represented 77.2% of Coca-Cola FEMSA's total sales volume. In 1998, sales volume in the Valley of Mexico increased by 17.3% to 304.5 million unit cases and sales volume in the Southeast territory increased by 27.9% to 96.7 million unit cases, including sales volume in the Tapachula territory, purchased in November 1997. Sales volume in the Valley of Mexico in colas increased 13.5 % and flavored soft drinks increased 22.9%, in each case compared to 1997. Sales volume of Ciel water reached 6.1 million unit cases in the Valley of Mexico, where it was introduced in August 1997. Sales volume for colas and flavored soft drinks in the Southeast Mexico (including the Tapachula area) increased by 26.5% and 18.9% respectively, in comparison to 1997. Sales volume of Ciel water, introduced in the Southeast territory in April 1997, reached 4.9 million unit cases. In Argentina, including the additional volumes from the Pilar territory under the Company's control from June 2, 1998, sales volume increased 14.8% in 1998. Sales volume in Buenos Aires in colas increased 15.1% and flavored soft drinks increased 17.5%, in each case compared to 1997.

Non-returnable presentations represented a significantly higher percentage of the Company's sales volume in 1998, compared to 1997, increasing from 44% of total volume to 52% and from by 31% to 39% of total volume in the Valley of Mexico and the Southeast territory, respectively. In Argentina, the non-returnable presentations represented 89% of sales volume in 1998, compared to 70% in 1997.

Volume growth in the Mexican territories reflects Coca-Cola FEMSA's continued investments in technology, sales force training, the pre-sell system and refrigeration equipment, as well as its increased promotional efforts. Sales revenue growth slightly lagged volume growth in the Mexican territories primarily due to the higher rate of growth of larger presentations, which are sold for a lower price per ounce of beverage than smaller presentations. In addition, average unit price in real terms for Coca-Cola FEMSA's products declined by 0.7% in the Mexican territories in the twelve months ended December 31, 1998. In the Buenos Aires territory, despite an average price decline of 9.5%, net sales increased by 4.0% in 1998, reflecting the strong volume growth of 14.8% during 1998.

Other Operating Revenues

Other operating revenues increased to Ps. 111 million in 1998 from Ps. 108 million in 1997, primarily as the result of increased recurring revenues of Coca-Cola FEMSA's Mexican territories in 1998.

Gross Profit

Coca-Cola FEMSA's cost of goods sold increased by 15.3% to Ps. 7.070 billion in the year ended December 31, 1998 from Ps. 6.130 billion in 1997. The 21.0% increase in Mexico and 5.9% increase in Argentina is primarily attributable to higher volumes, higher raw material costs associated with the increase in the mix of one-way presentations and in Mexico, the effect of the depreciation of the peso against the dollar on packaging costs. Coca-Cola FEMSA recorded gross profit of Ps. 5.648 billion for the twelve months ended December 31, 1998, an 11.7% increase over gross profit of Ps. 5.057 billion recorded in 1997, and the gross margin declined by 0.8 percentage points to 44.8% of net sales in 1998 from 45.6% in 1997.

At the Company's Mexican operations, gross profit represented 46.8% of net sales, while gross profits for the Argentine operations represented 40.4% of net sales. This represented decreases of 0.9 and 1.2 percentage points, respectively, as compared to 1997, which were essentially attributable to the above mentioned factors.

Income from Operations

Consolidated operating expenses increased by 12.0% to Ps. 3.937 billion in the year ended December 31, 1998 from Ps. 3.514 billion in 1997. The 1998 figure includes a non-recurring operating expense of Ps. 45 million as a consequence of the Company's adoption of a more conservative valuation for its information systems. In 1998, selling expenses increased by 11.4% to Ps. 3.079 billion from Ps. 2.763 billion in 1997 and represented 24.2% of total revenues compared to 24.7% of total revenues in 1997. Administrative expenses increased by 8.2% to Ps. 813 million from Ps. 751 million in 1997.

Selling expenses as a percentage of total revenues in the Mexican territories decreased from 23.4% in 1997 to 23.1% in 1998. Administrative expenses increased 12.5% reflecting higher real wages and increase resources in both operations and corporate areas. In Argentina, selling expenses as a percentage of total revenue decreased from 27.2% in 1997 to 26.6% in 1998. Administrative expenses were reduced by 3.4% as a result of Coca-Cola FEMSA Buenos Aires efforts to reduce fixed costs. Consolidated income from operations after amortization of goodwill grew by 10.1% to Ps. 1.594 billion for the twelve months ended December 31, 1998 from Ps. 1.448 billion in 1997. The increase in income from operations was attributable to the many efforts made by Coca-Cola FEMSA to improve productivity and contain operating expenses, which decreased by 0.8 percentage points to 30.6% of total revenues in 1998 relative to 1997. Coca-Cola FEMSA's operating margin decreased by 0.4 percentage points to 12.5% in 1998 from 12.9% recorded in 1997, largely as a consequence of the decline in the gross margin in 1998 and the non-recurring operating expense mentioned above.

Integral Cost of Financing

The integral cost of financing in 1998 was Ps. 343 million as compared to Ps. 186 million in 1997. Net interest expense increased from Ps. 267 million in 1997 to Ps. 427 million in 1998, an increase of 59.6%. Higher net interest expense was driven by both the depreciation of the Mexican peso and the effect of the capital expenditure program on Coca-Cola FEMSA's cash flow and short-term debt positions during 1998. The gain (loss) on monetary position increased 100.9% from Ps. 91 million during 1997 to Ps. 182 million during 1998. The primary reason for the increase was higher inflation rates in 1998 as well as the increase in the levels of average debt during 1998. The foreign exchange loss increased from Ps. 9 million in 1997 to Ps. 98 million in 1998 due to the 22.7% depreciation of the Mexican peso during 1998.

Other Expenses

Other expense increased from Ps. 146 million in 1997 to Ps. 220 million. The majority of these expenses are related to assets write-offs and severance payments associated with the closing of the La Viga and Churubusco production facilities in the Valley of Mexico and the write-offs of other underutilized assets and severance payments within Mexico and Argentina. These expenses are attributable to Coca-Cola FEMSA efforts to improve operational efficiencies and rationalization of production capacity during 1998.

Taxes

Income tax, tax on assets, and employee profit sharing increased 44.8% from Ps. 265 million in 1997 to Ps. 384 million in 1998. This increase is attributable to a lower utilization of tax loss carryforwards, higher non-deductible other expenses, the initiation of tax payments in Argentina in December 1998, and the absence of the 1997 tax benefit of accelerated deprecation of the initial investment of the Toluca plant during that year.

Net income

As a result of the above, net income for 1998 decreased by 23.9% to Ps. 647 million from Ps. 851 million in 1997. Majority net income decreased 20.9% to Ps. 647 million during 1998. Majority net income is calculated by subtracting the net income related to the previous ownership interest of The Coca-Cola Export Corporation in Coca-Cola FEMSA Buenos Aires from consolidated net income. Coca-Cola FEMSA purchased such remaining ownership interest on September 19, 1997 and therefore, there is no minority interest after that date.

ARTHUR ANDERSEN

TRANSLATION OF A REPORT ORIGINALLY ISSUED IN SPANISH
(SEE EXPLANATION ADDED TO THE NOTES)

Mexico, D.F.

TO THE STOCKHOLDERS OF COCA-COLA FEMSA, S.A. DE C.V.:

We have audited the accompanying consolidated balance sheet of COCA-COLA FEMSA, S.A. DE C.V. (a Mexican corporation) AND SUBSIDIARIES (collectively referred to as the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1998. 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 have conducted our audits in accordance with the auditing standards generally accepted in Mexico, which are substantially the same as those followed in the 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 and that they are prepared in accordance with the accounting principles generally accepted in Mexico. 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.

Accounting practices used by the Company in preparing the accompanying consolidated financial statements conform with the accounting principles generally accepted in Mexico but do not conform with the accounting principles generally accepted in the United States. A description of these differences and a partial reconciliation as permitted by the regulations of the U.S. Securities and Exchange Commission of the consolidated net majority income for the years ended December 31, 1998, 1997 and 1996 and majority stockholders' equity as of December 31 1998 and 1997 to the accounting principles generally accepted in the United States are set forth in Notes 20 and 21.

As mentioned in Notes 5 a) and 5 l), beginning January 1, 1997, the Company changed its accounting for (a) property, plant and equipment from restatement based on independent appraisers to restatement based on the Mexican National Consumer Price Index and, in the case of imported equipment, the application of the inflation of the country of origin and the exchange rate at period-end and (b) the valuation of labor liabilities, as required by the Fifth Amendment to Bulletin B-10 and Circular 50, respectively, issued by the Mexican Institute of Public Accountants.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Coca-Cola FEMSA, S.A. de C.V. and Subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations, changes in their stockholders' equity and changes in their financial position for each of the three years in the period ended December 31, 1998, in accordance with the accounting principles generally accepted in Mexico.

January 28, 1999

CONSOLIDATED BALANCE SHEET

TRANSLATION OF A FINANCIAL STATEMENT ORIGINALLY ISSUED IN SPANISH

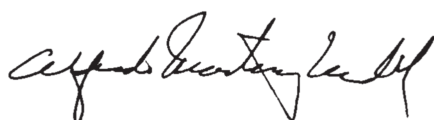
At December 31, 1998 and 1997
Amounts expressed in Thousands of U.S. Dollars ($) and constant Mexican Pesos (Ps.) as of December 31, 1998

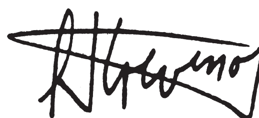
	1998		1997
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 19,028	Ps. 188,015	Ps. 252,455
Accounts receivable:			
Trade	50,192	495,952	383,137
Notes	6,229	61,546	98,290
Other	14,490	143,173	143,897
	70,911	700,671	625,324
Recoverable taxes	2,543	25,129	10,158
Inventories	44,594	440,630	430,893
Prepaid expenses	6,322	62,468	78,290
Total Current Assets	143,398	1,416,913	1,397,120
PROPERTY, PLANT AND EQUIPMENT:			
Land	64,053	632,905	647,570
Buildings, machinery and equipment	761,802	7,527,365	6,812,565
Accumulated depreciation	(219,709)	(2,170,947)	(1,967,429)
Construction in progress	39,575	391,047	377,605
Bottles and cases	31,268	308,963	360,564
Total Property, Plant and Equipment	676,989	6,689,333	6,230,875
INVESTMENTS IN SHARES	16,944	167,422	127,609
DEFERRED CHARGES, NET	47,691	471,237	457,708
GOODWILL, NET	193,858	1,915,508	1,924,067
TOTAL ASSETS	$ 1,078,880	Ps. 10,660,413	Ps. 10,137,379

		1998	1997
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Bank loans and interest payable	$ 109,482	Ps. 1,081,788	Ps. 859,051
Current maturities of long-term debt	5,642	55,744	95,745
Notes payable	11	111	86,200
Suppliers	84,883	838,734	865,456
Accounts payable	20,612	203,663	240,817
Accrued taxes	13,756	135,925	134,295
Other liabilities	7,811	77,182	41,999
Total Current Liabilities	242,197	2,393,147	2,323,563
LONG-TERM LIABILITIES:			
Long-term debt	310,979	3,072,781	3,073,564
Current maturities	(5,642)	(55,744)	(95,745)
Pension plan	10,536	104,104	82,606
Seniority premiums	2,040	20,160	19,961
Other liabilities	8,446	83,458	67,896
Total Long-Term Liabilities	326,359	3,224,759	3,148,282
Total Liabilities	568,556	5,617,906	5,471,845
STOCKHOLDERS' EQUITY:			
Capital stock	162,069	1,601,403	1,601,403
Additional paid-in capital	140,193	1,385,246	1,385,246
Retained earnings	291,854	2,883,807	2,230,474
Net income for the year	65,504	647,244	819,076
Cumulative result of holding nonmonetary assets	(149,296)	(1,475,193)	(1,370,665)
Total Stockholders' Equity	510,324	5,042,507	4,665,534
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,078,880	Ps. 10,660,413	Ps. 10,137,379

The accompanying notes are an integral part of this consolidated balance sheet.

Mexico, D.F., January 28, 1999





Alfredo Martínez Urdal
Chief Executive Officer

Héctor Treviño Gutiérrez
Chief Financial and Administrative Officer

CONSOLIDATED INCOME STATEMENT

TRANSLATION OF A FINANCIAL STATEMENT ORIGINALLY ISSUED IN SPANISH

For the years ended December 31, 1998, 1997 and 1996
Amounts expressed in Thousands of U.S. Dollars ($) and constant Mexican Pesos (Ps.) as of December 31, 1998

	1998		1997	1996
Net sales	$ 1,275,902	Ps. 12,607,183	Ps. 11,078,965	Ps. 10,160,519
Other operating revenues	11,241	111,078	107,772	38,761
Total revenues	1,287,143	12,718,261	11,186,737	10,199,280
Cost of sales	715,578	7,070,626	6,130,304	5,804,791
Gross profit	571,565	5,647,635	5,056,433	4,394,489
Operating expenses:				
Administrative	82,245	812,663	750,711	657,452
Selling	311,616	3,079,076	2,763,451	2,769,997
	393,861	3,891,739	3,514,162	3,427,449
Goodwill amortization	11,805	116,643	94,709	89,453
Fixed asset adjustment	4,602	45,473	—	—
Income from operations	161,297	1,593,780	1,447,562	877,587
Integral cost of financing:				
Interest expense	45,307	447,677	344,338	324,992
Interest income	(2,125)	(21,000)	(76,922)	(62,365)
Foreign exchange loss, net	9,927	98,089	9,071	3,117
Gain on monetary position	(18,424)	(182,047)	(90,626)	(219,737)
	34,685	342,719	185,861	46,007
Other income (expenses), net	(22,232)	(219,686)	(145,890)	86,950
Income for the year before income taxes and employee profit sharing	104,380	1,031,375	1,115,811	918,530
Income taxes and employee profit sharing	38,876	384,131	265,201	205,037
Net income for the year	$ 65,504	Ps. 647,244	Ps. 850,610	Ps. 713,493
Majority net income	$ 65,504	Ps. 647,244	Ps. 819,076	Ps. 680,527
Minority net income	—	—	31,534	32,966
Net income for the year	$65,504	Ps. 647,244	Ps. 850,610	Ps. 713,493
Weighted average shares outstanding (in thousands)	1,425,000	1,425,000	1,425,000	1,425,000
Majority net income per share (U.S. dollars and Mexican pesos)	$ 0.05	Ps. 0.45	Ps. 0.57	Ps. 0.48

The accompanying notes are an integral part of this consolidated income statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

TRANSLATION OF A FINANCIAL STATEMENT ORIGINALLY ISSUED IN SPANISH

For the years ended December 31, 1998, 1997 and 1996
Amounts expressed in Thousands of U.S. Dollars ($) and constant Mexican Pesos (Ps.) as of December 31, 1998

	1998	1998	1997	1996
RESOURCES GENERATED BY (USED IN):				
OPERATIONS:				
Net income for the year	$ 65,504	Ps. 647,244	Ps. 850,610	Ps. 713,493
Depreciation	41,735	412,385	333,163	292,837
Breakage of bottles and cases	14,238	140,680	287,882	297,867
Goodwill amortization	11,805	116,643	94,709	89,453
Amortization and others	15,089	149,098	195,927	135,497
	148,371	1,466,050	1,762,291	1,529,147
WORKING CAPITAL:				
Accounts receivable	(7,626)	(75,347)	(101,064)	(28,706)
Inventories	6,434	63,570	(153,421)	50,817
Prepaid expenses and recoverable taxes	(4,539)	(44,847)	(8,848)	(80,617)
Suppliers	(2,704)	(26,722)	191,191	199,104
Accounts payable and others	(200)	(1,971)	(53,509)	35,688
Accrued taxes	165	1,630	(84,713)	100,895
	(8,470)	(83,687)	(210,364)	277,181
Net Resources Generated By Operations	139,901	1,382,363	1,551,927	1,806,328
INVESTMENTS:				
Property, plant and equipment	(122,512)	(1,210,538)	(1,180,995)	(1,367,382)
Retirements of property, plant and equipment	14,759	145,835	71,972	30,591
Investments in shares and deferred charges	(22,433)	(221,663)	(1,290,166)	(611,823)
Net Resources Generated By (Used In) Investing Activities	(130,186)	(1,286,366)	(2,399,189)	(1,948,614)
FINANCING ACTIVITIES:				
Amortization in real terms of financing for the purchase of Coca-Cola FEMSA Buenos Aires' shares	(48,758)	(481,777)	(453,318)	(680,052)
Translation adjustment in Coca-Cola FEMSA Buenos Aires investment	1,956	19,326	372,202	299,333
Increase (decrease) in notes and interest payable	(8,591)	(84,889)	77,508	50,307
Increase in bank loans	55,881	532,831	463,341	1,087,995
Dividends paid	(16,774)	(165,743)	(129,301)	(71,231)
Other liabilities	1,575	15,562	(156)	(14,418)
Pension plan and seniority premiums	430	4,253	7,548	(13,775)
Net Resources Generated By (Used In) Financing Activities	(16,237)	(160,437)	337,824	658,159
Net increase (decrease) in cash and cash equivalents	(6,522)	(64,440)	(509,438)	515,873
Cash and cash equivalents at beginning of the year	25,550	252,455	761,893	246,020
Cash And Cash Equivalents At End Of the Year	$ 19,028	Ps. 188,015	Ps. 252,455	Ps. 761,893

The accompanying notes are an integral part of this consolidated statement of changes in financial position.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

TRANSLATION OF A FINANCIAL STATEMENT ORIGINALLY ISSUED IN SPANISH

For the years ended December 31, 1998, 1997 and 1996
Amounts expressed in Thousands of constant Mexican Pesos (Ps.) as of December 31, 1998

Description	*Capital Stock*	*Additional Paid-In Capital*
CONSOLIDATED BALANCES AT DECEMBER 31, 1995	Ps. 1,601,403	Ps. 1,385,246
Transfer of income of prior year		
Dividends paid		
Acquistition of 24% of the shares of Coca-Cola FEMSA Buenos Aires		
Net income for the year		
Results from holding nonmonetary assets		
CONSOLIDATED BALANCES AT DECEMBER 31, 1996	Ps. 1,601,403	Ps. 1,385,246
Transfer of income of prior year		
Dividends paid		
Acquistition of 25% of the shares of Coca-Cola FEMSA Buenos Aires		
Net income for the year		
Results from holding nonmonetary assets		
CONSOLIDATED BALANCES AT DECEMBER 31, 1997	Ps. 1,601,403	Ps. 1,385,246
Transfer of income of prior year		
Dividends paid		
Net income for the year		
Results from holding nonmonetary assets		
CONSOLIDATED BALANCES AT DECEMBER 31, 1998	**Ps. 1,601,403**	**Ps. 1,385,246**

The accompanying notes are an integral part of this consolidated statement of changes in stockholders' equity.

Retained Earnings	*Net Income for the Year*	*Cumulative Result of Holding Nonmonetary Assets*	*Minority Interest*	*Total Stockholders' Equity*
Ps. 1,236,396	Ps. 514,083	Ps. (1,085,921)	Ps. 370,606	Ps. 4,021,813
514,083	(514,083)			—
(71,231)				(71,231)
			95,347	95,347
	680,527		32,966	713,493
		(205,892)	7,901	(197,991)
Ps. 1,679,248	Ps. 680,527	Ps. (1,291,813)	Ps. 506,820	Ps. 4,561,431
680,527	(680,527)			—
(129,301)				(129,301)
			(541,043)	(541,043)
	819,076		31,534	850,610
		(78,852)	2,689	(76,163)
Ps. 2,230,474	Ps. 819,076	Ps. (1,370,665)	Ps. —	Ps. 4,665,534
819,076	(819,076)			—
(165,743)				(165,743)
	647,244			647,244
		(104,528)		(104,528)
Ps. 2,883,807	**Ps. 647,244**	**Ps. (1,475,193)**	**Ps. —**	**Ps. 5,042,507**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

TRANSLATION OF A FINANCIAL STATEMENT ORIGINALLY ISSUED IN SPANISH

At December 31, 1998, 1997 and 1996
Amounts expressed in Thousands of U.S. Dollars ($) and constant Mexican Pesos (Ps.) as of December 31, 1998

ACTIVITIES OF THE COMPANY.

Coca-Cola FEMSA, S.A. de C.V. (Coca-Cola FEMSA) is a Mexican corporation controlled by Grupo Industrial Emprex, S.A. de C.V. (Emprex, formerly Fomento Económico Mexicano, S.A. de C.V.), whose main activity is the acquisition, holding and transferring of all types of bonds, capital stock, shares and marketable securities.

Coca-Cola FEMSA is an association between Emprex, which owns 51% of the capital stock, and the Inmex Corporation, an indirect susidiary of The Coca-Cola Company, which owns 30% of the capital stock, and the remaining 19% of the shares are traded on the Bolsa Mexicana de Valores, S.A. de C.V. (the Mexican Stock Market) and The New York Stock Exchange, Inc.

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 two territories in Mexico and one territory in Argentina. The Valley of Mexico territory includes all of Mexico City and a substantial portion of the state of Mexico. The Southeastern Mexican territory covers the states of Tabasco, Chiapas and contiguous portions of the state of Oaxaca and the southern portion of the state of Veracruz. The Argentine territory includes the City of Buenos Aires and a substantial portion of the greater Buenos Aires area.

Note 1. ACQUISITION OF NEW TERRITORIES.

As part of the Company's expansion program, and its role as one of The Coca-Cola Company's anchor bottlers in Latin America, the following transactions were concluded:

a) *Expansion in Buenos Aires, Argentina:*

i) As part of its strategy to increase its presence in Buenos Aires, Coca-Cola FEMSA consummated the following two transactions in February 1996:

The acquisition of certain assets of SIRSA San Isidro Refrescos, S.A.I. y C. (SIRSA) and Refrescos del Norte, S.A. (RDN), all of which are in territories contiguous to that already operated by Coca-Cola FEMSA de Buenos Aires, S.A. (Coca-Cola FEMSA Buenos Aires), as follows:

- The land and building housing the RDN bottling plant (but not the equipment contained therein) for a purchase price of $3,500.
- Bottles, cases, refrigerators and other assets acquired from SIRSA, with a total book value of 3.9 million Argentine pesos for a purchase price of $56,500.

With this acquisition, The Coca-Cola Company granted to Coca-Cola FEMSA Buenos Aires the right to produce, market and distribute Coca-Cola products in the territory previously served by SIRSA beginning February 1, 1996, and the RDN territory beginning June 1, 1998 (expiration date of the RDN bottler contract). As part of these transactions, on June 2, 1998, Coca-Cola FEMSA Buenos Aires and The Coca-Cola Export Corporation (a direct subsidiary of The Coca-Cola Company) signed an agreement to include the territories previously served by RDN, beginning on that date.

- Partial exercise of the purchase option of Coca-Cola FEMSA Buenos Aires, acquiring an additional 24% of this company's capital, reaching a participation of 75%. Goodwill of $37,000 arose from this transaction.

These transactions were funded with short-term bridge loans that were refinanced on February 15, 1996 through an 18-month syndicated loan in the amount of $165,000, which was prepaid on November 1, 1996 with the proceeds of the public registration of notes payable in the United States in the amount of $200,000. This debt is commonly referred to as "Yankee Bonds", and the maturity date is November 1, 2006 (See Note 14).

ii) On September 19, 1997, Coca-Cola FEMSA acquired the remaining 25% equity of Coca-Cola FEMSA Buenos Aires. The price of this acquisition was $98,500, generating $44,100 of goodwill. The resources used to complete this acquisition were obtained through the issuance of three short-term notes of $25,000 each and internal cash resources.

b) *Acquisition of the territory of Tapachula, Chiapas Mexico:*
In November 1997, Coca-Cola FEMSA acquired 100% of the capital stock of Embotelladora de Soconusco, S.A. de C.V., a bottler in Tapachula, Chiapas Mexico. The price of this acquisition was Ps.122,442 and was financed with internal cash resources. Goodwill of Ps.100,708 arose from this transaction.

Note 2. BASIS OF PRESENTATION.

The consolidated financial statements of the Company are prepared in accordance with Generally Accepted Accounting Principles in Mexico ("Mexican GAAP"), which differ in certain significant respects from those applicable in the United States ("U.S. GAAP"), as further explained in Note 20. A reconciliation from Mexican GAAP to U.S. GAAP is included in Note 21.

The consolidated financial statements are stated in Mexican pesos ("Ps."). Certain assets items in the consolidated balance sheet as of December 31, 1997 have been reclasified to conform to the presentation as of December 31, 1998 and the amounts differ from those originally presented. The translations of Mexican pesos into U.S. dollars ("$") are included solely for the convenience of the reader, using the exchange rate as of December 31, 1998 of 9.8810 Mexican pesos to one U.S. dollar. The convenience translations should not be construed as representations that the Mexican peso accounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

Note 3. BASIS OF CONSOLIDATION.

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

The following companies are the subsidiaries of Coca-Cola FEMSA:

Valley of Mexico

Industria Embotelladora de México, S.A. de C.V.
Industria Embotelladora del Valle, S.A. de C.V.
Distribuidora de Bebidas Valle de México, S.A. de C.V.
Propimex, S.A. de C.V.
Distribuidora Comercial Dico, S.A. de C.V.
Refrescos y Aguas Minerales, S.A. de C.V.
Dirección y Servicios, S.A. de C.V.
Refrescos y Aguas Nacionales, S.A. de C.V.
Industria Refresquera del Valle, S.A. de C.V.
Administración y Asesoría Integral, S.A. de C.V.

Southeastern Mexico

Refrescos de Oaxaca, S.A. de C.V.
Embotelladora Sin Rival, S.A. de C.V.
Inmuebles del Golfo, S.A. de C.V.
Embotelladora de Soconusco, S.A. de C.V.(1)

Argentina

Coca-Cola FEMSA de Buenos Aires S.A.

(1) Acquired in November 1997.

Note 4. SIGNIFICANT ACCOUNTING POLICIES.

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

The Company's management considers that the estimates and assumptions used were adequate as of the date of these consolidated financial statements.

The Company's significant accounting policies are as follows:

a) *Recognition of the Effects of Inflation in the Financial Information:*
The consolidated financial statements have been prepared in accordance with Bulletin B-10, "Recognition of the Effects of Inflation in the Financial Information", as amended. Bulletin B-10 requires that all Mexican entities:

1. Restate nonmonetary assets such as inventories and property, plant and equipment, including related costs and expenses when such assets are consumed or depreciated. On January 1, 1997, the Fifth Amendment to Bulletin B-10 went into effect, which establishes options to restate inventories using either the National Consumer Price Index ("NCPI") or the replacement cost and property, plant and equipment by applying NCPI or for domestic property, plant and equipment applying the NCPI, and for imported equipment, applying the inflation rate of the country of origin, then translating at the year-end exchange rate. The value of property, plant and equipment as of December 31, 1996, as well as the useful lives assigned according to independent appraisals, were the basis of the restatement and calculation of depreciation beginning in 1997.

2. Restate capital stock, additional paid-in capital and retained earnings by the amount necessary to maintain the purchasing power equivalent in Mexican pesos on the dates such capital was contributed or income generated, through the use of the NCPI.

3. Include in stockholders' equity the cumulative effect of holding nonmonetary assets (net difference between changes in the replacement cost of nonmonetary assets and adjustments based upon the NCPI).

4. Include in the cost of financing the purchasing power gain or loss from holding monetary items.

The Company restates its consolidated financial statements in terms of the purchasing power of the Mexican peso as of the most recent balance sheet date by using for Mexican subsidiaries the NCPI, and by using for Coca-Cola FEMSA Buenos Aires the inflation rate plus the latest year-end exchange rate of Argentina.

The Company restates its income statement using the NCPI or the Argentine inflation determined from the month in which the transaction occurred to the date of the most recent balance sheet.

Financial information for Mexican subsidiaries for prior years was restated using the NCPI, and for Coca-Cola FEMSA Buenos Aires the financial information was restated using the Argentine inflation rate, then translated at the year-end exchange rate of the Mexican peso. Accordingly, the amounts are comparable with each other and with the preceding years since all are expressed in the purchasing power of the respective currencies as of the end of the latest year presented.

b) *Foreign Subsidiary Incorporation:*
The financial statements of foreign subsidiaries are incorporated into the consolidated financial statements in accordance with the Bulletin B-15, "Foreign Currency Transactions and Translation of Financial Statements of Foreign Operations", which is mandatorily applicable in 1998. However, the Company has always followed the procedures required by Bulletin B-15.

The accounting records of foreign subsidiaries are maintained in the currency of the country where they are located, and after restatement to year-end currency, the financial statements are translated using the year-end exchange rate, except for stockholders' equity which is translated using the exchange rate at the date of contribution. The difference between the exchange rates is included in the cumulative translation adjustment, which is included in the cumulative result of holding nonmonetary assets in stockholders' equity.

The foreign exchange gain or loss from the financing obtained for acquisitions of foreign subsidiaries, net of the related tax effect, is included in the cumulative translation adjustment, because the net investment in the foreign subsidiaries is considered to be an economic hedge against such debt. The gain or loss on monetary position resulting from such financing is computed using the inflation rate of the country in which the acquired subsidiary is located, because it is considered to be an integral part of the investment in such subsidiary, and is included in the cumulative translation adjustment.

c) *Cash and Cash Equivalents:*
Cash consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed-rate investments with brokerage houses, valued at quoted market prices.

d) *Inventories and Cost of Sales:*
The value of inventories is adjusted to replacement cost, without exceeding market value. Cost of sales is determined principally based on replacement cost at the time of sale.

e) *Advances to Suppliers:*
The balances are adjusted by applying NCPI factors, considering their average age, and are included in the inventory account.

f) *Prepaid Expenses:*
These represent payments for services that will be received over the next twelve months. Prepaid expenses are recorded at historical cost and applied in the income statement of the month in which the services or benefits are received. Prepaid expenses are principally represented by advertising, leasing and promotional expenses.

Advertising costs are represented by television and radio advertising airtime paid in advance, which are generally amortized over a twelve-month period based on the transmission of the television and radio spots.

Promotional costs are charged to expenses when they are incurred, except for those promotional costs related to the launching of new products or presentations. These costs are recorded as prepaid expenses and amortized over the year during which they are estimated to increase sales of the related products or presentations to normal operating levels, which is generally one year. At December 31, 1998 and 1997, prepaid expenses include Ps. 4,590, and Ps. 4,520, respectively, of costs related to the launching of new presentations.

g) *Bottles and Cases:*
The Company classifies bottles and cases as property, plant and equipment, which are recorded at acquisition cost. Their value is subsequently adjusted to replacement cost.

Depreciation is computed only for tax purposes using the straight-line method at a rate of 10% per year. For accounting purposes breakage is charged to expense as incurred, which is similar to the depreciation based on the estimated useful life of approximately five years for returnable glass bottles and one year for returnable plastic bottles. For the years ended December 31, 1998, 1997, and 1996 breakage expense amounted to Ps. 140,680, Ps. 287,882 and Ps. 297,867, respectively.

Bottles and cases in circulation, which have been placed in the hands of customers, are presented net of deposits received from customers, and the difference between the cost of these assets and the deposits received is amortized over a period of 50 months, at December 31, 1998 this account amounted to Ps. 8,127.

h) *Investments in Shares:*
The investments in shares of affiliated companies are initially recorded at their cost of acquisition and subsequently valued using the equity method (See Note 8).

i) *Property, Plant and Equipment, net:*
These assets are initially recorded at their cost of acquisition and/or construction. Until 1996, property, plant and equipment were restated quarterly using specific rates determined by independent appraisers and adjusted annually to reflect the net replacement cost reported by the same independent appraisers.

Beginning in 1997, as mentioned in Note 4 a), domestic property, plant and equipment are restated by applying the NCPI, and imported equipment is restated by applying the inflation rate of the country of origin, then translated at the year-end exchange rate. The value of property, plant and equipment as of December 31, 1996, as well as the useful lives assigned according to appraisals, were the basis of the restatement and calculation of the depreciation beginning in 1997.

Depreciation of property, plant and equipment is computed using the straight-line method, based on the value of the assets reduced by their residual values, and is restated to year-end Mexican pesos using NCPI factors. Depreciation of new property, plant and equipment commences in the year after placement in service.

The annual average depreciation rates of the assets are as follows:

Buildings and construction	1.9%
Machinery and equipment	3.8%
Distribution equipment	7.2%
Other equipment	7.6%

The Company identified fixed assets consisting mainly of property and equipment, in accordance with an approved program for the disposal of certain investments, which at December 31, 1998 and 1997, had a carrying value of Ps. 84,965 and Ps. 56,258 (nominal values), respectively and have been adjusted to their estimated realizable value, according to applicable independent appraisals.

Those fixed assets recorded at their estimated realizable value and not restated for the effects of inflation are treated as monetary assets on which a loss on monetary position must be computed and recorded in the results of operations.

As part of the Company's production capacity rationalization program, together with the emphasis on non-returnable products, the Company recorded write-offs for Ps. 145,835, which included a provision for the closing of one Valley of Mexico plant in January 1999.

In addition, the Company recorded a writedown in the value of computer equipment of Ps. 45,473, as a result of an analysis which determined that a large part of the Company's older computer equipment had become obsolete in light of technological advances and the implementation of new information systems. However, to avoid distorting the comparability of amounts, the writedown is presented in a separate caption in the consolidated statement of income under "Fixed asset adjustment".

j) *Deferred Charges:*
These represent payments whose benefits will be received in future years, principally represented by: (i) refrigeration equipment which was placed in the market in order to showcase and promote the Company's products, such equipment is amortized on an estimated useful life of approximately three years, (ii) agreements with customers for the right to sell and promote the Company's products during certain periods of time, which are considered to be monetary assets and amortized in accordance with the timing of the receipt by the Company of such benefits, as set forth in the terms of such agreements, the average term of which is between three and four years, and (iii) leasehold improvements, which are restated by applying NCPI factors, considering their average age, and amortizing them over the term in which the benefits are expected to be received or the term of the related lease, using the straight-line method.

k) *Goodwill:*
Represents the difference between the price paid and the book value of the shares and/or assets acquired, which is substantially equal to the fair value of such assets as a result of their restatement through the acquisition date. This difference is amortized over a 20-year period.

The goodwill resulting from the acquisition of foreign subsidiaries is maintained in the currency in which the investment was made, since such investment will be recovered in such currency, and is restated at the year-end exchange rate.

l) *Payments from The Coca-Cola Company:*
The Coca-Cola Company has participated in the advertising and promotional programs of the Company. The resources received for advertising and promotional incentives are included as a reduction of selling expenses. The marketing expenditures made by the Company for advertising and promotional incentives are included as a reduction of selling expenses. The marketing expenditures made by the Company for advertising, sales promotions and retailer incentive programs were Ps. 640,651, Ps. 514,296 and Ps. 483,682 during the years ended December 31, 1998, 1997 and 1996, respectively. Approximately the same amount was expended by The Coca-Cola Company. In addition, The Coca-Cola Company has made payments in connection with the Company's capital expenditure program. These payments are related to the increase in volume of Coca-Cola products that resulted from such expenditures and represent an effective recovery of the cost of concentrate incurred by the Company. The majority of these payments are included in "Other income (expenses), net" (See Note 10).

m) *Labor Liabilities:*
These include liabilities for the pension and retirement plan and seniority premium, based on actuarial calculations by independent actuaries, using the projected unit credit method. The increase in labor liabilities of the year is charged to expense in the income statement (See Note 12).

The subsidiaries of the Company (except Coca-Cola FEMSA Buenos Aires) have established funds for the payment of pension benefits through irrevocable trusts with the employees as beneficiaries.

Severance indemnities are charged to expense on the date that they are paid and restated to year-end Mexican pesos using NCPI factors. Since 1995, the Company has been restructuring certain areas, resulting in a reduction in the number of personnel and in severance payments of Ps. 102,086, Ps. 122,450 and Ps. 31,774 during the years ended December 31, 1998, 1997 and 1996, respectively, which are presented in "Other income (expenses), net".

On January 1, 1997, a circular issued by the Mexican Institute of Public Accountants went into effect regarding the interest rates to be used for the valuation of labor liabilities. This circular requires the use of real as opposed to nominal interest rates to determine labor liabilities. Further, such obligations are also to be considered nonmonetary liabilities, which are to be restated using NCPI factors, with such restatement included directly in the cumulative result of holding nonmonetary assets in stockholders' equity. Until 1996, these liabilities were considered monetary items generating a gain on monetary position, which was included in the consolidated income statement as part of the "Integral cost of financing".

The unamortized past service costs of the pension and retirement plan and seniority premium are recorded as expense in the income statement over the estimated 14-year period during which the employees will receive the benefits of the plan, beginning in 1992.

n) *Income Tax, Tax on Assets and Employee Profit Sharing:*

The Company recognizes, by means of the liability method, the future effects of income taxes and, for its Mexican subsidiaries, employee profit sharing related to the cumulative temporary differences between accounting and taxable income, which arise from specific items whose turnaround period can be determined and that are not expected to be replaced by items of a similar nature and amount. The only non-recurring temporary difference for which a deferred tax effect was recognized in 1997 was the purchased option cost explained in Note 13.

Each subsidiary determines and records its taxes as if it had filed separately based on the tax incurred during the year, in accordance with existing tax legislation. Therefore, the income tax provision reflected in the consolidated financial statements represents the sum of the provisions for the subsidiaries and Coca-Cola FEMSA. Fomento Económico Mexicano, S.A. de C.V. (formerly Valores Industriales, S.A. parent company of Emprex) is authorized by the Secretaria de Hacienda y Crédito Público (SHCP) (Ministry of Finance) to prepare its income and asset tax returns on a consolidated basis, which includes the proportional taxable income or loss of its Mexican subsidiaries.

Taxes are computed in Mexican pesos of the date on which the transactions occurred. For purposes of presentation in the financial statements, they are restated to year-end Mexican pesos by applying NCPI factors.

o) *Integral Cost of Financing:*

The integral cost of financing includes:

Interest:

Interest income and expenses are recorded when earned or incurred, respectively, and are restated to year-end Mexican pesos by applying NCPI factors.

Foreign Exchange Gains or Losses:

Transactions in foreign currency are recorded in Mexican pesos 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 foreign exchange gain or loss directly in the income statement.

The foreign exchange gain or loss from financing obtained for the acquisition of foreign subsidiaries is included in the cumulative translation result, which is presented in the cumulative result of holding nonmonetary assets in stockholders' equity (See Note 4 b).

Gain on Monetary Position:

This is the result of the effects of inflation on monetary items. The gain on monetary position for Mexican subsidiaries is computed applying the NCPI to the net monetary position at the beginning of each month, excluding the financing mentioned in Note 4 b), and the monthly result is restated in terms of the purchasing power of the Mexican peso at year-end.

The gain on monetary position of foreign subsidiaries is computed by applying the monthly inflation rate of the country in which such subsidiary is located to the net monetary position at the beginning of each month, expressed in such country's currency, then translating the monthly results into Mexican pesos using the year-end exchange rate.

p) *Restatement of Stockholders' Equity:*

The objective of this restatement is to present stockholders' equity and income or loss generated or incurred in terms of the purchasing power of the Mexican peso as of the date of the most recent balance sheet.

The cumulative result of holding nonmonetary assets represents the sum of the difference between replacement values and restatement values, as determined by applying the NCPI to nonmonetary assets such as inventories and fixed assets, and their effect on the income statement when the assets are consumed or depreciated. Additionally, the cumulative translation adjustments are included in this account.

q) Net Majority Income per Share:

This represents the net majority income corresponding to each share of the Company's capital stock, computed on the basis of the weighted average number of shares outstanding during the year, in conformity with Bulletin B-14, "Income per share", whose application is required beginning in 1997.

Note 5. OTHER ACCOUNTS RECEIVABLE.

	1998	1997
The Coca-Cola Company	**Ps. 113,285**	Ps. 113,730
Travel advances to employees	**2,709**	2,533
Advances (other than travel) and loans to employees	**839**	4,444
Guarantee deposits	**3,945**	6,987
Insurance claims	**6,923**	2,621
Argentine Coca-Cola bottlers	**2**	2,610
Other	**15,470**	10,972
	Ps. 143,173	Ps. 143,897

Note 6. INVENTORIES.

	1998	1997
Finished products	**Ps. 166,087**	Ps. 180,596
Raw materials	**122,697**	141,059
Spare parts	**121,288**	90,350
Work in process	**7,132**	11,439
Advertising and promotional materials	**1,486**	4,613
Advances to suppliers	**21,940**	2,836
	Ps. 440,630	Ps. 430,893

Note 7. PREPAID EXPENSES.

Balance Sheet	1998	1997
Advertising	**Ps. 48,083**	Ps. 62,869
Promotional expenses	**4,590**	4,520
Insurance	**3,511**	3,391
Other	**6,284**	7,510
	Ps. 62,468	Ps. 78,290

Income Statement	1998	1997	1996
Advertising	**Ps. 496,231**	Ps. 396,196	Ps. 373,098
Promotional expenses	**34,230**	19,814	15,452
Insurance	**20,915**	25,434	18,619
Other	**25,314**	21,315	31,305
	Ps. 576,690	Ps. 462,759	Ps. 438,474

Note 8. INVESTMENTS IN SHARES.

	Ownership	Equity Method Value 1998	1997
COCA-COLA FEMSA:			
Industria Embotelladora de Querétaro, S.A. de C.V. (IEQSA)	19.60%	Ps. 45,216	Ps. 45,164
Other		1,615	871
COCA-COLA FEMSA DE BUENOS AIRES:			
Complejo Industrial Can S.A. (CICAN)	48.10%	120,591	81,574
		Ps. 167,422	Ps. 127,609

The equity method recorded in the consolidated income statement is as follows:

	1998	1997
IEQSA	Ps. 4,507	Ps. 4,715
CICAN	31,742	35,824

Note 9. DEFERRED CHARGES, NET.

	1998	1997
Leasehold improvements	Ps. 49,579	Ps. 49,232
Agreements with customers of Coca-Cola FEMSA	15,321	13,806
Prepaid advertising	55,918	67,455
Additional labor liabilities (see Note 12)	10,796	7,982
Bonus program (see Note 13)	12,996	16,279
Yankee bond	35,129	39,547
Refrigeration equipment	264,349	207,678
Other	27,149	55,729
	Ps. 471,237	Ps. 457,708

Note 10. BALANCES AND TRANSACTIONS WITH RELATED PARTIES, ASSOCIATED AND AFFILIATED COMPANIES.

The consolidated balance sheet and income statement include the following balances and transactions with affiliated companies:

	1998	1997
EMPREX AND SUBSIDIARIES:		
Balance Sheet:		
Assets (trade)	Ps. 14,039	Ps. 10,717
Liabilities (suppliers)	80,129	127,823

	1998	1997	1996
Income Statement:			
Sales and other revenues	Ps. 49,041	Ps. 49,835	Ps. 37,150
Purchases of inventories	838,137	876,171	496,455
Operating expenses	246,064	191,172	149,721

		1998		1997
THE COCA-COLA COMPANY:				
Balance Sheet:				
Assets (other accounts receivable)	**Ps.**	**113,285**	Ps.	113,730
Liabilities (short-term notes payable)		**—**		70,745

		1998		1997		1996
Income Statement:						
Purchases of concentrate	**Ps.**	**2,147,845**	Ps.	1,937,829	Ps.	1,740,149
Interest expense		**1,701**		7,516		7,818
Revenues related to the capital expenditure program		**17,490**		20,495		107,956

During the years ended December 31, 1998, 1997 and 1996, the Company received services from companies in which some stockholders of the Company also own stock as follows:

		1998		1997		1996
Insurance premiums	**Ps.**	**30,433**	Ps.	37,892	Ps.	24,244
Interest expense		**36,490**		1,829		274
Interest income		**2,001**		17,601		10,293

The consolidated income statement includes the following transactions with associated companies:

		1998		1997		1996
Approximated purchases of canned products:						
IEQSA	**Ps.**	**222,167**	Ps.	77,992	Ps.	135,956
CICAN		**494,123**		416,339		485,233

Note 11. BALANCES AND TRANSACTIONS IN FOREIGN CURRENCY.

Assets and liabilities denominated in U.S. dollars, excluding those of Coca-Cola FEMSA Buenos Aires are as follows:

Thousands of U.S. Dollars	*Applicable Exchange Rate**	*Short-Term*	*Long-Term*	*Total*
Balances				
1998:	**9.881**			
Assets		**$ 108**	**$ —**	**$ 108**
Liabilities		**99,813**	**301,588**	**401,401**
1997:	8.05			
Assets		$ 116	$ —	$ 116
Liabilities		99,001	303,730	402,731

**Mexican pesos per one U.S. dollar.*

The transactions in foreign currency converted into U.S. dollars, excluding those of Coca-Cola FEMSA Buenos Aires, were as follows:

Thousands of U.S. Dollars	1998	1997	1996
Transactions:			
Interest Income	$ 83	$ 1,320	$ 407
Interest expense	36,189	59,613	23,651

As of January 28, 1999, the issue date of these consolidated financial statements, the foreign currency position was similar to that at December 31, 1998, and the exchange rate was 10.16 Mexican pesos per one U.S. dollar.

Note 12. LABOR LIABILITIES.

The actuarial calculations for Mexican pension and retirement plan and seniority premium and the cost for the year, were determined using the following long-term assumptions:

	Real Rates
Annual discount rate	6.00%
Salary increase	2.00%
Return on assets	6.00%

Coca-Cola FEMSA Buenos Aires does not have a pension plan for employees.

The balances of the labor liabilities and the trust assets, as well as the expense for the period, are as follows:

	1998	1997
Pension and retirement plan:		
Vested benefit obligation	Ps. 47,415	Ps. 51,635
Non-vested benefit obligation	70,405	69,724
Accumulated benefit obligation	117,820	121,359
Excess of projected benefit obligation over accumulated benefit obligation	20,213	16,538
Projected benefit obligation	138,033	137,897
Plan assets at fair value	(30,553)	(32,493)
Unrecognized net transition obligation	(904)	(11,600)
Unrecognized net loss	(12,100)	(17,097)
	94,476	76,707
Additional liabilities	9,628	5,899
Total	Ps. 104,104	Ps. 82,606
Seniority premiums:		
Vested benefit obligation	Ps. 7,229	Ps. 7,711
Non-vested benefit obligation	10,546	8,519
Accumulated benefit obligation	17,775	16,230
Excess of projected benefit obligation over accumulated benefit obligation	1,652	1,677
Projected benefit obligation	19,427	17,907
Unrecognized net transition obligation	1,630	(357)
Unrecognized net result	(2,065)	328
	18,992	17,878
Additional liabilities	1,168	2,083
Total	Ps. 20,160	Ps. 19,961
Total Labor Liabilities	Ps. 124,264	Ps. 102,567

	1998	1997	1996
Expense for the year:			
Penison plan cost	Ps. 15,846	Ps. 11,038	Ps. 11,216
Seniority premium cost	4,069	3,797	2,316
Gain on monetary position of labor	—	—	(2,786)
	Ps. 19,915	Ps. 14,835	Ps. 10,746

The accumulated actuarial results were generated by the differences in the assumptions used for the actuarial calculations at the beginning of the year versus the assumptions at the end of the year.

At December 31, 1998 and 1997 the balance of labor liabilities in some companies was less than the accumulated benefit obligation reduced by the amount of the plan assets at fair value, resulting in an additional liability, which is recorded as an intangible asset included in "Deferred charges, net" (See Note 9).

The trust assets consist of fixed income and variable funds, valued at market.

The integral cost of financing includes the following items related to labor obligations: (i) the interest cost, which amounted to Ps. 9,404, Ps. 6,456 and Ps. 8,656, in December 31, 1998, 1997 and 1996, respectively; and (ii) the gain on monetary position prior to 1997 (See Note 4 m).

Note 13. BONUS PROGRAM.

In 1997, certain subsidiaries of the Company commenced a bonus program for the benefit of certain executive officers of such subsidiaries. Under the terms of this program, approved in April 1997, each such executive officer will be entitled on the fifth anniversary of the program to a cash payment of a special bonus based on the officer's salary and the amount of the increase in real terms (i.e., excluding the effects of inflation) in the market value of FEMSA shares during the preceding five years, provided that no payments will be made unless the market value of FEMSA shares has at least doubled in real terms by such fifth anniversary.

For the executives of the Company, the bonus program is based one-half on the market value of FEMSA shares and one-half on the market value of the Company shares.

In November 1997, the Company hedged its potential obligation under the bonus program by investing in cash-settled options relating to FEMSA shares, and such purchased options were deposited in a trust. The cost of the purchased options has been recorded in "Deferred charges, net" and will be amortized over the five-year term of such options. As of December 31, 1998, the unamortized cost of the options amounts to Ps. 12,996.

The purchased options will be "marked to market", and any income derived therefrom will be recorded only to the extent that such income exceeds the potential compensation as a function of the special bonuses that would be due based on the stock price at the end of each reporting period.

As of December 31, 1998, the Company had not hedged its potential obligation related to its shares.

Note 14. BANK LOANS AND NOTES PAYABLE.

Current bank loans outstanding at December 31, 1998, principally consist of notes used to finance the acquisition of the remaining 25% of Coca-Cola FEMSA Buenos Aires (See Note 1) and part of its inversion program, with a weighted average annual rate of 6.56%.

Long-term bank loans and notes payable of the Company are as follows (denominated in U.S. dollars, unless otherwise indicated):

Type of Liability / Bank	*Interest Rate*	*1998*	*1997*
Private placement of Coca-Cola FEMSA Citibank, N.A.	9.40%	**Ps. 988,100**	Ps. 956,018
Yankee bond of Coca-Cola FEMSA	8.95%	**1,976,200**	1,912,036
Bank Loans: Banque Paribas	7.69%	**36,861**	56,149
Loans from various banks to acquire fixed Assets	Variable	**71,620**	137,961
Capital leasing[1]	Variable	**—**	11,400
Total		**Ps. 3,072,781**	Ps. 3,073,564

(1) Denominated in Argentine pesos.

Maturities of long-term bank loans as of December 31, 1998 are as follows:

	Amount Outstanding
Current maturities of long-term debt	Ps. 55,744
2000	33,213
2001	13,194
2002	6,330
2004	988,100
2006	1,976,200
	Ps. 3,072,781

As of December 31, 1998, the Company was in compliance with all restrictions and covenants established in its loan agreements.

Note 15. FAIR VALUE OF FINANCIAL INSTRUMENTS.

The carrying amounts and fair values of the Company's financial instruments are summarized as follows:

	1998		*1997*	
Thousands of U.S. dollars	***Carrying Amount***	***Fair Value***	*Carrying Amount*	*Fair Value*
Long-term debt	**$ 310,979**	**$ 311,753**	$ 320,887	$ 334,600

The fair value of long-term bank loans is based on the discounted value of contractual cash flows. The discount rate is estimated using rates currently offered for debt with similar remaining maturities. The fair value of long-term bank loans and notes payable is based on quoted market prices. The Company does not anticipate any significant refinancing activities that would result in the settlement of any long-term debt at fair value.

Note 16. STOCKHOLDERS' EQUITY.

At December 31, 1998, the capital stock of the Company (after giving effect to the three-for-one stock split effective January 28, 1998) was represented by 1,425 million ordinary shares without par value. Coca-Cola FEMSA's capital stock is comprised as follows:

	Number of Shares (Thousands)
Series A	726,750
Series D	427,500
Series L	270,750
Total (All Series)	1,425,000

Series "A" shares may only be acquired by Mexican individuals and may not represent less than 51% of the total subscribed capital stock of Coca-Cola FEMSA. Series "A" and series "D" shares have full voting rights but are subject to transfer restrictions. Series "L" shares have limited voting and other corporate rights.

In addition, 270,750 thousand series "B" shares and 204,000 thousand series "L" shares have been authorized and issued but not subscribed.

The restatement of the stockholders' equity is allocated to each of the various stockholders' equity accounts as follows:

	Historical Cost	*Restatement*	*Restated Value*
Capital stock	Ps. 475,000	Ps. 1,126,403	Ps. 1,601,403
Additional paid-in capital	463,755	921,491	1,385,246
Retained earnings	1,705,791	1,178,016	2,883,807
Net income for the year	605,897	41,347	647,244

The net income of each Mexican subsidiary is subject to a legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock. This reserve may not be distributed to stockholders during the existence of the subsidiary, except as stock dividends. At December 31, 1998 the legal reserve amounts to Ps. 93,292 (nominal value).

Until 1998, retained earnings and other reserves distributed as dividends, as well as reductions of capital, were subject to a 34% income tax charged to Coca-Cola FEMSA when the distribution was not made from net taxable income (See Note 17).

Beginning in 1999, dividends paid to individuals or foreign residents will be subject to income tax witholdings at an effective rate ranging from 7.5% to 7.7%, depending on the year in which the earnings were generated. In addition, if earnings for which no corporate tax has been paid are distributed, the tax must be paid upon distribution of the dividends. Consequently, Coca-Cola FEMSA will have to keep a record of earnings subject to each tax rate. Earnings for which corporate taxes have been paid amounted to approximately Ps. 596,967, as of December 31, 1998.

At an extraordinary stockholders' meeting held on January 9, 1998, the reserve for the acquisition of Coca-Cola FEMSA shares which is included in retained earnings, was increased to Ps. 400,000 (nominal value). In addition, a three-for-one stock split of the Company's common stock was approved and became effective on January 28, 1998. Accordingly, all historical weighted average share and per share amounts have been restated to reflect the stock split.

At an ordinary stockholders' meeting held on March 10, 1998, dividends in the amount of 0.0957 Mexican pesos per share (nominal value) were declared. Such dividends were paid on June 15, 1998.

Note 17. TAX SYSTEM.

a) *Income tax:*

Until 1998, Mexican income tax was computed at a 34% rate on taxable income, which differs from accounting income principally due to the difference between purchases and cost of sales, the treatment of the integral cost of financing, the cost of labor liabilities and depreciation. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the tax inflationary component, which is similar in concept to the financial gain or loss on monetary position.

Until 1998, Coca-Cola FEMSA Buenos Aires calculated its income tax at the statutory rate of 33% on taxable income, which differs from the accounting income principally due to the difference in depreciation and certain provisions. For the years ended December 31, 1997 and 1996, Coca-Cola FEMSA Buenos Aires did not generate any income tax due to the availability and amortization of tax loss carryforwards. Coca-Cola FEMSA Buenos Aires utilized all of its tax loss carryforwards in 1998.

b) *Tax on assets:*

The Mexican tax on assets is computed at an annual rate of 1.8% based on the average of certain assets at tax restated value less certain liabilities. The tax on assets is paid only to the extent that it exceeds the income tax of the year. If in the year there is a tax on assets payment, this amount can be credited against the excess of income taxes over the tax on assets in each of the preceding three years. Additionally, this payment may be indexed and credited against the excess of income taxes over asset taxes for the following ten years.

Beginning in 1998, the tax laws in Argentina consider the payment of a Tax on Minimum Presumptive Income (TMPI), which similarly to the tax on assets, is paid only to the extent that it exceeds the income taxes of the period. Any required payment of TMPI is recoverable to the extent that the income taxes exceed the TMPI of the following four years.

c) *Employee profit sharing:*

Employee profit sharing is computed at the rate of 10% of the individual taxable income of each of the Mexican subsidiaries except that depreciation of historical, rather than restated values, is used, foreign exchange gains and losses are not included until the asset or liability is due, and other effects of inflation are also excluded.

The present tax law in Argentina does not consider any employee profit sharing.

d) *The income tax, tax on assets and employee profit sharing provisions are comprised as follows:*

	1998	1997	1996
Income tax	**Ps. 326,786**	Ps. 237,287	Ps. 182,024
Tax on assets	—	1,875	—
Amortization of tax loss carryforwards	**(3,022)**	(47,913)	(16,372)
Prior years income tax credit	—	(1,875)	—
Employee profit sharing	**60,367**	75,827	39,385
	Ps. 384,131	Ps. 265,201	Ps. 205,037

Income taxes were computed on taxable income that differs from accounting income principally due to the following:

	1998	1997	1996
Statutory tax rate	**34.00%**	34.00%	34.00%
Permanent differences:			
Gain from monetary position	**(5.88)**	(13.41)	(18.27)
Inflationary component	**3.06**	11.17	17.76
Difference in tax and books basis of fixed assets sold	**3.29**	1.44	(1.12)
Non-deductible expenses	**12.58**	8.12	5.76
Other	**(1.13)**	(2.00)	(0.95)
Temporary differences:			
Depreciation	**(10.12)**	(9.76)	(12.65)
Cost of sales vs. purchases, labor and overhead	**(4.57)**	(5.18)	(2.58)
Reserves	**2.44**	1.32	(0.82)
Utilization of tax loss carryforwards	**(2.28)**	(8.73)	(3.10)
Effective tax rate	**31.39%**	16.97%	18.03%

e) *1999 tax reform:*

The following changes are effective beginning in 1999:

For Mexico:

1. The income tax rate increased from 34% to 35%, allowing the Company to defer payment of approximately 5% of the tax (3% in 1999) until the date on which the earnings are distributed as dividends.
2. The benefits of tax consolidation are limited to 60% of the shareholder participation in the subsidiaries, eliminating those over which only effective control is exercised.
3. Consolidated estimated tax payment made through the holding company have been eliminated.
4. The immediate deduction of investments has been eliminated.

For Argentina, the income tax increased from 33% to 35%.

Note 18. CONTINGENCIES AND GUARANTY.

The Secretary of Finance and Public Credit (SHCP) levied tax assessments against certain subsidiaries of Coca-Cola FEMSA with regard to the inflation adjustments of certain tax loss carryforwards. As of the date of these financial statements, four lawsuits have been settled in favor of the Company for Ps. 913, one against the Company for Ps. 252 and one case totaling Ps. 200 is pending settlement. These amounts include penalties and surcharges through the date the assessments were determined by the authorities. As a result of the foregoing, FEMSA has filed an appeal before the Mexican Supreme Court because each of these cases was resolved in a different manner in different courts. Based on the favorable decisions and the opinion of the Company's legal counsel, the Company believes that the outcome of the pending lawsuits will be favorable.

Additionally, the SHCP has levied tax assessments against certain subsidiaries of Coca-Cola FEMSA alleging that such subsidiaries inappropriately amortized tax loss carryforwards generated prior to 1987 against the taxable income of 1990, 1991 and 1992. As of the date of these financial statements, three cases have been settled in favor of the Company, two against the Company, and three cases are still pending settlement, for

Ps. 10,894, Ps. 3,848 and Ps. 13,209, respectively. These amounts include penalties and surcharges through the date the assessments were determined by the authorities. In this case the Company has also filed an appeal before the Superme Court. Based on the opinion of the Company's legal counsel, the Company believes that sufficient legal bases exist to obtain a favorable outcome of the pending cases.

Coca-Cola FEMSA Buenos Aires has guaranteed a total of approximately $5,600 of the debt of CICAN.

Note 19. INFORMATION BY SEGMENT.

Relevant information concerning the two countries in which the Company operates is as follows:

As of December 31, 1998	*Mexico*	*Argentina*[2]	*Total*
Total revenues	Ps. 8,703,739	Ps. 4,014,522	Ps. 12,718,261
Income from operations	1,382,458	211,322	1,593,780
Depreciation	258,310	154,075	412,385
Amortization and other	229,557	176,864	406,421
Total assets[1]	6,239,827	4,395,457	10,635,284
Income tax recoverable	2,281	22,848	25,129
Total liabilities[1]	4,767,620	714,361	5,481,981
Income tax liability	57,074	78,851	135,925
Capital expenditures[3]	1,206,384	225,817	1,432,201

As of December 31, 1997	*Mexico*	*Argentina*[2]	*Total*
Total revenues	Ps. 7,320,055	Ps. 3,866,682	Ps. 11,186,737
Income from operations	1,223,699	223,863	1,447,562
Depreciation	211,610	121,553	333,163
Amortization and other	185,016	393,502	578,518
Total assets[1]	5,645,952	4,481,269	10,127,221
Income tax recoverable	1	10,157	10,158
Total liabilities[1]	4,530,324	807,226	5,337,550
Income tax liability	71,163	63,132	134,295
Capital expenditures[3]	895,061	471,841	1,366,902

As of December 31, 1996	*Mexico*	*Argentina*[2]	*Total*
Total revenues	Ps. 6,337,620	Ps. 3,861,660	10,199,280
Income from operations	832,947	44,640	877,587
Depreciation	198,942	93,895	292,837
Amortization and other	280,973	241,844	522,817
Capital expenditures[3]	1,114,042	318,939	1,432,981

(1) Income tax recoverable and payable are not included in Total assets and Total liabilities.
(2) Includes goodwill effect.
(3) Includes bottles and cases, deferred charges, property, plant and equipment.

Note 20. DIFFERENCES BETWEEN MEXICAN AND U.S. GAAP.

The consolidated financial statements of the Company are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. A partial reconciliation of the reported net majority income and majority stockholders' equity to U.S. GAAP is presented in Note 21. It should be noted that this reconciliation to U.S. GAAP does not include the reversal of the restatement of the financial statements to recognize the effects of inflation, as required under Mexican GAAP Bulletin B-10, as amended (See Note 4 a).

The application of Bulletin B-10 represents a comprehensive measure of the effects of price-level changes in the Mexican economy and, as such, is considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes.

The principal differences between Mexican GAAP and U.S. GAAP that affect the consolidated financial statements of the Company are described below:

a) *Restatement of Prior Year Financial Statements:*

As explained in Note 4 a), in accordance with Mexican GAAP, the financial information for foreign subsidiaries and affiliated companies of prior years was restated using the inflation rate of the country in which the foreign subsidiary or affiliated company is located, then translated at the year-end exchange rate of the Mexican peso. This procedure results in the presentation of prior year amounts in the purchasing power of the respective currencies as of the end of the latest year presented.

Under U.S. GAAP, the financial information for foreign subsidiaries and affiliated companies of prior years must be restated in constant units of the reporting currency, the Mexican peso, which requires the restatement of such prior year amounts using the inflation rate of Mexico.

Accordingly, a one-line reconciling item for the difference in methodologies of restating prior year balances is included in the GAAP reconciliation of net majority income and majority stockholders' equity. Additionally, all other U.S. GAAP adjustments affected by the use of the B-15 methodology have been determined based on the U.S. GAAP methodology described above.

b) *Restatement of Machinery and Equipment:*

As explained in Note 4 a), in accordance with Mexican GAAP, imported machinery and equipment has been restated by applying the inflation rate of the country of origin, then translated at the year-end exchange rate of the Mexican peso.

Under U.S. GAAP, the restatement of all machinery and equipment, both domestic and imported, has been done in constant units of the reporting currency, the Mexican peso, using the inflation rate of Mexico.

Accordingly, a reconciling item for the difference in methodologies of restating imported machinery and equipment is included in the GAAP reconciliation of net majority income and majority stockholders' equity.

c) *Statement of Cash Flows:*

Under Mexican GAAP, the Company presents a consolidated statement of changes in financial position in accordance with Bulletin B-12, which identifies the generation and application of resources as representing differences between beginning and ending financial statement balances in constant Mexican pesos. It also requires that monetary and unrealized foreign exchange gains and losses be treated as cash items in the determination of resources generated by operations.

U.S. GAAP Statement of Financial Accounting Standards (SFAS) No. 95 requires presentation of a statement of cash flows.

The following presents a reconciliation of the resources generated by operating, investing and financing activities under Mexican GAAP to the resources generated by such activities under U.S. GAAP:

	1998	1997	1996
Resources generated by operations under Mexican GAAP	**Ps. 1,382,363**	Ps. 1,551,927	Ps. 1,806,328
Inflationary effects	**(184,790)**	(241,484)	(349,217)
Foreign exchange loss	**98,089**	9,071	3,117
Retirements of property, plant and equipment	**145,835**	71,891	30,046
Resources generated by operations under U.S. GAAP	**Ps. 1,441,497**	Ps. 1,391,405	Ps. 1,490,274
Resources used in investing activities under Mexican GAAP	**Ps. 1,286,366**	Ps. 2,399,189	Ps. 1,948,614
Retirements of property, plant and equipment	**145,835**	71,891	30,046
Restatement of investment	**3,874**	15,693	(17,991)
Resources used in investing activities under U.S. GAAP	**Ps. 1,436,075**	Ps. 2,486,773	Ps. 1,960,669
Resources generated by (used in) financing activities under Mexican GAAP	**Ps. (160,437)**	Ps. 337,824	Ps. 658,159
Inflationary effects	**188,664**	257,137	331,226
Foreign exchange loss	**(98,089)**	(9,071)	(3,117)
Resources generated by (used in) financing activities under U.S. GAAP	**Ps. (69,862)**	Ps. 585,890	Ps. 986,268

d) *Deferred Income Taxes and Employee Profit Sharing:*

The Company adopted SFAS No. 109, "Accounting for Income Taxes" for U.S. GAAP reconciliation purposes, the objective of which is to recognize deferred tax liabilities and assets for the future tax consequences of all temporary differences between the book and tax bases of assets and liabilities.

The primary temporary differences which generated the deferred tax liability under U.S. GAAP are the deduction of purchases for tax purposes versus cost of sales for financial statement purposes, different depreciation rates and related restatements of fixed assets and the tax loss carryforwards that reduce future taxes payable.

All of the changes in the required deferred tax liability during the year are charged to the income statement. A major portion of the temporary differences arising with respect to fixed assets is due to the differences in depreciation rates and restatement effects.

Employee profit sharing is based on taxable income, adjusted as mentioned in Note 17, and is subject to the future consequences of temporary differences in the same manner as income taxes. The deferred effects not recorded under Mexican GAAP are included in the reconciliation of Mexican to U.S. GAAP. Additionally, for U.S. GAAP purposes, employee profit sharing must be classified as an operating expense.

The tax effect of temporary differences that generated deferred tax liabilities (assets) under SFAS No. 109 are as follows:

Deferred Income Taxes		*1998*		*1997*
Current:				
Inventories	Ps.	63,487	Ps.	73,475
Reserves		(30,194)		(22,254)
Non-current:				
Fixed assets		664,246		592,914
Investment in shares		24,164		5,024
Deferred charges		137,956		36,534
Pension plan		(36,437)		(20,310)
Seniority premiums		(7,055)		(14,338)
Tax loss carryforward		—		(23,728)
Recoverable asset tax		—		(11,157)
	Ps.	816,167	Ps.	616,160

Deferred Employee Profit Sharing		*1998*		*1997*
Current:				
Inventories	Ps.	18,265	Ps.	21,669
Non-current:				
Fixed assets		214,008		187,973
Deferred charges		9,791		6,791
Pension plan		(2,016)		(5,974)
Seniority premiums		(7,526)		(1,996)
	Ps.	232,522	Ps.	208,463

e) *Cost of Pension Plan and Other Employee Benefits:*

Under Mexican GAAP, the requirement to record liabilities for employee benefits using actuarial computations was applicable beginning in 1993, in accordance with Bulletin D-3, “Labor Obligations”, which is substantially the same as U.S. GAAP’s SFAS No. 87, “Employers’ Accounting for Pensions”.

The Company has no post-retirement health care insurance or other benefit plans, other than the pension plan referred to in Note 12. Therefore, SFAS No. 106, “Accounting for Post-Retirement Benefits”, would have no effect on the Company’s financial position.

The Company has prepared a study of pension costs under U.S. GAAP based on actuarial calculations, using the same assumptions used under Mexican GAAP (See Note 12).

The net pension cost and the funded status of the pension plan under SFAS No. 87 are as follows:

		1998		1997		1996
Net pension cost:						
Service cost	Ps.	6,389	Ps.	6,465	Ps.	6,053
Interest cost		9,404		6,456		8,656
Actual return on plan assets		(1,854)		(1,879)		(2,268)
Net amortization and deferral		713		368		2,902
Net pension cost (U.S. GAAP)		14,652		11,410		15,343
Net pension cost recorded (Mexican GAAP)		(15,846)		(11,038)		(11,216)
Additional (income) expense that must be recognized under U.S. GAAP	Ps.	(1,194)	Ps.	372	Ps.	4,127

		1998		1997
Pension liability:				
Projected benefit obligation	Ps.	138,033	Ps.	137,897
Plan assets at fair value		(30,553)		(32,493)
Unfunded projected benefit obligation		107,480		105,404
Unrecognized net transition obligation		(4,721)		(5,158)
Unrecognized net gain		(16,522)		(27,206)
Total unfunded accrued pension liability under U.S. GAAP		86,237		73,040
Total unfunded accrued pension liability under Mexican GAAP		(94,476)		(76,707)
Liability that must be (canceled) under U.S. GAAP	Ps.	(8,239)	Ps.	(3,667)

The changes of the projected benefit obligation on the pension liability and the plan assets at fair value, are shown below:

		1998		1997
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	Ps.	137,897	Ps.	113,823
Service cost		6,389		6,465
Interest cost		14,428		13,313
Actuarial gain (cost)		(18,468)		5,849
Benefits paid		(2,213)		(1,553)
Projected benefit obligation at end of year	Ps.	138,033	Ps.	137,897

		1998		1997
Change in plan assets at fair value:				
Fair value of plan assets at beginning of year	Ps.	32,493	Ps.	31,781
Actual return on plan assets		(59)		(2,265)
Plan participants contributions		332		—
Benefits paid		(2,213)		(1,553)
Fair value of plan assets at end of year	Ps.	30,553	Ps.	32,493

Under Mexican GAAP and U.S. GAAP there is no difference in the liabilities for seniority premiums.

Until December 31, 1996, under Mexican GAAP employee severance liabilities were considered a monetary liability and, accordingly, were included in the calculation of the gain on monetary position. However, under U.S. GAAP such liabilities are considered to be nonmonetary and, accordingly, should not

be included in the calculation of the gain on monetary position. The elimination of the gain on monetary position for this item has been included in the reconciliation to U.S. GAAP. As indicated in Note 12, beginning in January 1997, there is no difference between U.S. GAAP and Mexican GAAP for this item since such item is now considered nonmonetary for Mexican GAAP as well.

f) Capitalization of Interest Expense:
In accordance with U.S. GAAP, the Company capitalizes the applicable interest on all of its debt by applying the weighted average rate of interest on such debt to the balances of construction in progress.

g) SFAS No. 105:
With respect to SFAS No. 105, "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk", the Company's accounts receivable, which represent receivables from numerous retail customers, and the Company's cash balances do not represent any significant concentration of risk to the Company.

h) Minority Interest:
Under Mexican GAAP, the minority interest in consolidated subsidiaries is presented as a separate component within stockholders' equity in the consolidated balance sheet. According to U.S. GAAP, this item should be excluded from consolidated stockholders' equity and classified as a noncurrent liability in the consolidated balance sheet. Additionally, the minority interest in the net earnings of consolidated subsidiaries is excluded from consolidated net income under U.S. GAAP.

i) Impairment of Long-Lived Assets:
Under U.S. GAAP, an impairment has occurred when the total amount of potential future cash flows that may be reasonably expected to be obtained through the use of the asset during its remaining useful life, reduced by the operating costs and expenses associated with such cash flows, is less than the carrying amount of the asset.

The impairment of a long-lived asset that must be charged to the income statement is that amount by which the carrying amount of the asset restated to current year-end Mexican pesos exceeds its fair value, which is defined in SFAS-121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of", as the amount at which the asset could be bought or sold in a current transaction between willing parties.

Until 1996, in accordance with Mexican GAAP, a charge to the results of operations occurred only when the "realizable value", as defined under Mexican GAAP, of an asset in use, or the net realizable value of an asset not in use or expected to be sold in the near future, was less than the restated value of the asset as of the end of the immediately preceding year. Otherwise, any required reduction in carrying value was charged to the cumulative restatement effect in stockholders' equity.

Beginning in 1997, an amendment to the Mexican inflation accounting rules provides for recognition of an amount in the results of operations on the same basis as U.S. GAAP. Additionally, those fixed assets recorded at their estimated realizable value and not restated for the effects of inflation are treated as monetary assets on which a loss on monetary position must be computed and recorded in the results of operations.

j) *Comprehensive Income:*
Beginning in 1998, SFAS-130, "Reporting Comprehensive Income," which requires the presentation of comprehensive income under U.S. GAAP, went into effect. Note 21 d) presents a reconciliation of net majority income under U.S. GAAP to comprehensive net majority income under U.S. GAAP, in which the main reconciling item is the result of holding non-monetary assets. The components of other comprehensive income are the result of holding of nonmonetary assets and the cumulative translation adjustment.

k) *Deferred Promotional Expenses:*
As explained in Note 4 f), for Mexican GAAP purposes the promotional costs related to the launching of new products or presentations are recorded as prepaid expenses. For U.S. GAAP purposes, all promotional costs are expensed as incurred.

l) *Summarized Financial Information:*
Summarized balance sheet and income statement including all differences described above and reconciled in Note 21 are presented as follows:

Income Statement	*1998*	*1997*	*1996*
Total revenues	**Ps.12,718,261**	Ps. 11,035,142	Ps. 10,566,030
Income from operations	**1,463,193**	1,326,882	799,688
Income before income tax	**1,088,848**	1,107,330	1,008,034
Income taxes	**630,352**	338,409	292,961
Consolidated net income	**Ps. 458,496**	Ps. 768,921	Ps. 715,073
Approximate net majority income	**458,496**	737,801	678,285
Net minority income	—	31,120	36,788
	Ps. 458,496	Ps. 768,921	Ps. 715,073

Balance Sheet	*1998*	*1997*
Current assets	**Ps. 1,412,323**	Ps. 1,364,200
Fixed assets	**6,797,177**	6,401,415
Other assets	**2,554,167**	2,343,497
Total assets	**Ps. 10,763,667**	Ps. 10,109,112
Current liabilities	**Ps. 2,393,147**	Ps. 2,295,848
Long-term liabilities	**4,181,751**	3,894,301
Other liabilities	**83,458**	65,447
Total liabilities	**6,658,356**	6,255,596
Majority stockholders' equity	**4,105,311**	3,853,516
Total liabilities and majority stockholders' equity	**Ps. 10,763,667**	Ps. 10,109,112

Note 21. RECONCILIATION OF MEXICAN GAAP TO U.S. GAAP.

a) Reconciliation of Net Majority Income:

	1998	1997	1996
Net majority income under Mexican GAAP	Ps. 647,244	Ps. 819,076	Ps. 680,527
Approximate U.S. GAAP adjustments:			
Restatement of prior year financial statements (Note 20 a)	—	(3,685)	6,274
Restatement of machinery and equipment (Note 20 b)	1,888	2,258	—
Deferred income taxes (Note 20 d)[1]	(306,588)	(150,490)	(124,025)
Deferred employee profit sharing (Note 20 d)	(62,443)	(37,659)	(54,041)
Pension plan cost (Note 20 e)	1,194	(372)	(4,127)
Capitalization of interest expense (Note 20 f)	36,618	—	—
Gain on monetary position resulting from U.S. GAAP adjustments (Note 4 o)	141,442	110,343	167,509
Monetary gain on labor liabilities	—	—	(2,786)
Deferred promotional expenses (Note 4 f)	(859)	(1,670)	8,954
Total adjustments	(188,748)	(81,275)	(2,242)
Approximate net majority income under U.S. GAAP	Ps. 458,496	Ps. 737,801	Ps. 678,285
Weighted average common shares outstanding (thousands)	1,425,000	1,425,000	1,425,000
Approximate net majority income per share under U.S. GAAP	Ps. 0.32	Ps. 0.52	Ps. 0.48

(1) The available tax loss carryforwards in each year were offset against the deferred tax expense.

b) Reconciliation of Majority Stockholders' Equity:

	1998	1997
Majority stockholders' equity under Mexican GAAP	Ps. 5,042,507	Ps. 4,665,534
Approximate U.S. GAAP adjustments:		
Restatement of prior year financial statements (Note 20 a)	—	(85,461)
Restatement of machinery and equipment (Note 20 b)	71,226	98,919
Deferred income taxes (Note 20 d)	(816,167)	(616,160)
Deferred employee profit sharing (Note 20 d)	(232,522)	(208,463)
Capitalization of interest expense (Note 20 f)	36,618	—
Accumulated pension plan liability (Note 20 e)	8,239	3,667
Deferred promotional expenses (Note 4 f)	(4,590)	(4,520)
Total adjustments	(937,196)	(812,018)
Approximate majority stockholders' equity under U.S. GAAP	Ps. 4,105,311	Ps. 3,853,516

c) Statement of Changes in Majority Stockholders' Equity under U.S. GAAP:

	1998	1997
Approximate majority stockholders' equity under U.S. GAAP as of the beginning of the year	**Ps. 3,853,516**	Ps. 3,466,237
Restatement of prior year financial statement (Note 20 a)	**85,461**	(203,608)
Result of holding nonmonetary assets	**(126,419)**	(17,613)
Dividends paid	**(165,743)**	(129,301)
Approximate majority net income under U.S. GAAP	**458,496**	737,801
Approximate majority stockholders' equity under U.S. GAAP as of the end of the year	**Ps. 4,105,311**	Ps. 3,853,516

d) Comprehensive net majority income under U.S. GAAP:

	1998	1997	1996
Approximate net majority income under U.S. GAAP	**Ps. 458,496**	Ps. 737,801	Ps. 678,285
Result of holding nonmonetary assets	**(126,419)**	(17,613)	(218,075)
Comprehensive net majority income under U.S. GAAP	**Ps. 332,077**	Ps. 720,188	Ps. 460,210

DIRECTORS & OFFICERS

EXECUTIVE OFFICERS

Alfredo Martínez Urdal
Chief Executive Officer, Coca-Cola FEMSA
5 Years as an Officer

Ernesto Torres Arriaga
Vice President
5 Years as an Officer

Héctor Treviño Gutiérrez
Chief Financial and Administrative Officer
5 Years as an Officer

Domingo Vaccarezza
Technical Director
4 Years as an Officer

John Santa María Otazúa
Chief Operating Officer-Mexico
3 Years as an Officer

Rafael Suárez Olaguibel
Chief Operating Officer-Buenos Aires
5 Years as an Officer

Simon Fox
Systems Director
5 Years as an Officer

Ernesto Silva Almaguer
New Business Development Director
2 Years as an Officer

DIRECTORS

Directors Appointed by Series A Shareholders

Eugenio Garza Lagüera
Chairman of the Board, Grupo Financiero Bancomer, S.A. de C.V. ("GFB"), Fomento Económico Mexicano, S.A. de C.V. ("FEMSA"), and Grupo Industrial Emprex, S.A. de C.V. ("Emprex")
5 Years as a Board Member

Alfredo Martínez Urdal
Chief Executive Officer, Coca-Cola FEMSA
5 Years as a Board Member

José Antonio Fernández Carbajal
Chief Executive Officer, FEMSA
5 Years as a Board Member

Eduardo Padilla Silva
Senior VP-Strategic Planning, FEMSA
2 Years as a Board Member

Alfonso Garza Garza
General Director, Grafo Regia
3 Years as a Board Member

Juan Carlos Braniff Hierro
Senior VP-Service Banking, GFB
5 Years as a Board Member

Ricardo Guajardo Touché
Chief Executive Officer, GFB
5 Years as a Board Member

Alfredo Livas Cantú*
Chief Financial Officer, FEMSA
5 Years as a Board Member

Gilberto Lozano González
Senior VP-Human Resources, FEMSA
3 Years as a Board Member

Armando Garza Sada
President, SIGMA Alimentos, S.A. de C.V.
1 Year as a Board Member

Daniel Servitjé Montull
Chief Executive Officer, Grupo Industrial Bimbo, S.A. de C.V.
1 Year as a Board Member

Directors Appointed by Series D Shareholders

James Chesnut
Chief Financial Officer, The Coca-Cola Company
5 Years as a Board Member

Timothy J. Haas
Senior VP-President Latin American Group, The Coca-Cola Company
3 Years as a Board Member

Weldon H. Johnson
Consultant to the President of The Coca-Cola Company
5 Years as a Board Member

Sergio Zyman
President, Sergio Zyman & Company
4 Years as a Board Member

* *Alfredo Livas Cantú retired as Chief Financial Officer of FEMSA on March 1, 1999. Federico Reyes García was named as Mr. Livas' successor.*

Directors Appointed by Series L Shareholders

Alexis Rovzar de la Torre
Attorney
5 Years as a Board Member

SECRETARY

Carlos Eduardo Aldrete Ancira
General Counsel, FEMSA
5 Years as a Board Member

EXAMINERS

Examiner Appointed by Series A Shareholders

José Manuel Canal Hernando
Partner, Arthur Andersen
5 Years as an Examiner

Examiner Appointed by Series D Shareholders

Fausto Sandoval Amaya
Partner, Ernst & Young L.L.P.
5 Years as an Examiner

ALTERNATE DIRECTORS

Alternate Directors Appointed by Series A Shareholders

Héctor Rangel Domene
Senior VP-Corporate Banking, GFB
5 Years as a Board Member

Federico Reyes García
Chief Executive Officer, Seguros Monterrey Aetna, S.A.
5 Years as a Board Member

Francisco Javier Fernández Carbajal
Chief Financial Officer, GFB
5 Years as a Board Member

José González Ornelas
General Director, FEMSA Servicios de Logística
4 Years as a Board Member

Luis Lauro González Salinas
Internal Auditor, FEMSA
3 Years as a Board Member

Guillermo Chávez Eckstein
Senior VP-Risk and Credit Management, GFB
3 Years as a Board Member

Alternate Directors Appointed by Series D Shareholders

William Herald
Chief Information Officer, The Coca-Cola Company
2 Years as a Board Member

Ralph H. Cooper
Senior VP-President The Minute Maid Company, The Coca-Cola Company
5 Years as a Board Member

Joseph R. Gladden, Jr.
Senior VP and General Counsel, The Coca-Cola Company
5 Years as a Board Member

George Gourlay
Senior VP-Manager Technical Operations Division, The Coca-Cola Company
1 Year as a Board Member

Alternate Director Appointed by Series L Shareholders

Fernando Pardo Ramírez
Consultant
5 Years as a Board Member

ALTERNATE SECRETARY

Arnulfo E. Treviño Garza
International Legal Counsel, FEMSA
1 Year as a Board Member

ALTERNATE EXAMINERS

Alternate Examiner Appointed by Series A Shareholders

Ernesto González Dávila
Partner, Arthur Andersen
5 Years as an Examiner

Alternate Examiner Appointed by Series D Shareholders

Humberto Ortiz Gutiérrez
Partner, Ernst & Young L.L.P.
5 Years as an Examiner

SHAREHOLDER INFORMATION

SHAREHOLDER AND ANALYST INQUIRIES

Shareholders and financial analysts can get answers to many frequently asked questions related to Coca-Cola FEMSA stock ownership by contacting:

Investor Relations Department
Coca-Cola FEMSA, S.A. de C.V.
Rio Amazonas 43 - 8A
Col. Cuauhtémoc
06500 Mexico, D.F.
Mexico
TEL 011-525-209-09-91
FAX 011-525-705-19-04
Web site www.cocacola-femsa.com.mx

STOCK EXCHANGE INFORMATION

Coca-Cola FEMSA's common stock is traded on the Bolsa Mexicana de Valores (BMV) under the symbol KOFL and on the New York Stock Exchange (NYSE) under the symbol KOF.

DIVIDEND PAYMENTS PER SHARE OF COMMON STOCK

During 1998, 1997 and 1996, the Company declared and paid dividends in the amounts of 0.0957, 0.07 and 0.0316 Mexican Pesos per share (nominal values after 3-for-1 stock split), respectively.

TRANSFER AGENT AND REGISTRAR

Bank of New York
101 Barclay Street 22W
New York, New York 10286
U.S.A.
TEL 212 815-2206

DIRECT PURCHASE STOCK PROGRAM

Global BuyDirect℠
www.bankofny.com
TEL 888 BNY-ADRS

KOFL BOLSA MEXICANA DE VALORES QUARTERLY COMMON STOCK INFORMATION*

Mexican Pesos per share (historical figures)

		1998	
Quarter Ended	*High*	*Low*	*Close*
December 31	Ps. 16.90	Ps. 11.60	Ps. 13.22
September 30	Ps. 17.50	Ps. 10.98	Ps. 12.36
June 30	Ps. 17.72	Ps. 14.10	Ps. 15.48
March 31	Ps. 17.52	Ps. 14.17	Ps. 17.52

		1997	
Quarter Ended	*High*	*Low*	*Close*
December 31	Ps. 15.83	Ps. 12.17	Ps. 15.67
September 30	Ps. 15.49	Ps. 12.07	Ps. 15.07
June 30	Ps. 13.88	Ps. 8.80	Ps. 13.80
March 31	Ps. 9.85	Ps. 7.47	Ps. 9.67

KOF NEW YORK STOCK EXCHANGE QUARTERLY COMMON STOCK INFORMATION*

U.S. Dollars per ADR

		1998	
Quarter Ended	*High*	*Low*	*Close*
December 31	$ 17.06	$ 11.63	$ 13.25
September 30	$ 19.63	$ 10.81	$ 12.19
June 30	$ 20.69	$ 15.63	$ 17.38
March 31	$ 20.44	$ 17.17	$ 20.44

		1997	
Quarter Ended	*High*	*Low*	*Close*
December 31	$ 19.52	$ 14.00	$ 19.33
September 30	$ 19.35	$ 15.23	$ 19.35
June 30	$ 17.50	$ 11.17	$ 17.21
March 31	$ 12.63	$ 9.38	$ 12.00

**Quoted after 3-for-1 stock split.*