MEXICAN ECONOMIC DEVELOPMENT INC
Form F-3/A
October 21, 2004
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As filed with the Securities and Exchange Commission on October 21, 2004

Registration No. 333-117795

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

TO

FORM F-3

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

Fomento Económico Mexicano, S.A. de C.V.

(Exact name of Registrant as specified in its charter)

Mexican Economic Development, Inc.

(Translation of Registrant s name into English)

United Mexican States	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

General Anaya No. 601 Pte. **Colonia Bella Vista** **Monterrey, NL 64410 Mexico** **(52-81) 8328-6000**	**Puglisi & Associates** **850 Library Avenue, Suite 204** **Newark, DE 19711, U.S.A.** **(302) 738-6680**

(Address and telephone number of	**(Name, address and telephone number of agent for service)**
Registrant s principal executive offices)	

Copies to:

Jaime A. El Koury, Esq.	**Glenn M. Reiter, Esq.**
Cleary, Gottlieb, Steen & Hamilton	**Simpson Thacher & Bartlett LLP**
One Liberty Plaza	**425 Lexington Avenue**
New York, New York 10006	**New York, New York 10017**
(212) 225-2000	**(212) 455-2000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: ¨

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is incomplete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer is not permitted.

PRELIMINARY PROSPECTUS

Subject to Completion, Dated October 20, 2004

BD Units

(including BD Units in the form of American Depositary Shares)

Fomento Económico Mexicano, S.A. de C.V. is conducting a global offering. The global offering consists of an international offering outside Mexico of American Depositary Shares, or ADSs, each representing 10 of our BD Units, and a concurrent offering of BD Units in Mexico. Each BD Unit represents one of our Series B Shares, two of our Series D-B Shares and two of our Series D-L Shares.

Concurrently with the global offering, B Units are being offered in Mexican offerings. Each B Unit represents five of our Series B Shares. The B Units will be sold at the equivalent of the public offering price per BD Unit in the Mexican BD Unit offering. A voting trust, the participants of which are members of five families, several of whom are members of our board of directors, owns 91.8% of our B Units as of September 15, 2004 and is expected to acquire substantially all of the B Units in the Mexican B Unit offerings.

Beneficial owners of outstanding ADSs as of , 2004, which is the record date, will be eligible, subject to compliance with the procedures and conditions summarized in this prospectus, to purchase up to ADSs for each ADS beneficially owned by them as of the record date through a share allocation program in the international offering. The conditions include, among others, consent to electronic delivery of documents. Beneficial owners of outstanding BD Units not in the form of ADSs will also be eligible, subject to compliance with the applicable procedures and conditions, to purchase BD Units through a share allocation program in the concurrent Mexican BD Unit offering. The aggregate number of ADSs and BD Units initially available under the share allocation programs will represent 50% of the BD Units, including BD Units in the form of ADSs, to be sold in the global offering.

The ADSs are listed on the New York Stock Exchange under the symbol FMX, and the BD Units are listed on the Mexican Stock Exchange under the symbol FEMSA UBD. On October 19, 2004, the last reported sale price of the ADSs on the New York Stock Exchange was US$ 43.75 per ADS, and the last reported sale price of the BD Units on the Mexican Stock Exchange was Ps. 49.90 per unit, equivalent to a price of US$ 43.55 per ADS, assuming an exchange rate of Ps. 11.4580 per U.S. dollar.

Investing in the ADSs and BD Units involves risk. See Risk Factors beginning on page 14.

PRICE US$ AN AMERICAN DEPOSITARY SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to FEMSA
Per ADS	US$	US$	US$
Total	US$	US$	US$

We have granted options, exercisable for 30 days, to the underwriters of the global offering to purchase up to additional BD Units in the form of ADSs or BD Units to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ADSs to purchasers on or about , 2004.

Citigroup

Morgan Stanley

, 2004

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You should rely only on the information incorporated by reference or contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The ADSs are being sold only in jurisdictions where sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of ADSs.

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INCORPORATION BY REFERENCE

The Securities and Exchange Commission, or SEC, allows us to incorporate by reference information in this prospectus, which means that we can disclose important information by referring you to another document that we have filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, and certain later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the following documents:

- our annual report on Form 20-F for the fiscal year ended December 31, 2003, filed with the SEC on April 8, 2004 (File No. 333-08752);

- the consolidated balance sheet of Corporación Interamericana de Bebidas, S.A. de C.V., formerly known as Panamerican Beverages, Inc., or Panamco, and subsidiaries, as of December 31, 2002 and 2001 and the related consolidated statements of operations, of shareholders equity and comprehensive income (loss) and of cash flows for each of the three years in the period ended December 31, 2002 included in its annual report on Form 10-K for the fiscal year ended December 31, 2002, filed with the SEC on March 28, 2003 (File No. 001-12290);

- the condensed consolidated financial statements of Panamco included in its filing on Form 10-Q for the fiscal quarter ended March 31, 2003, filed with the SEC on May 6, 2003 (File No. 001-12290); and

- any future filings on Form 6-K made by us with the SEC under the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of the offering of ADSs that are identified in such forms as being incorporated into this prospectus.

You may request a copy of any and all of the information that has been incorporated by reference in this prospectus and that has not been delivered with this prospectus, at no cost, by writing to us at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410, Mexico, Attention: Investor Relations. Our telephone number at this location is (52-81) 8328-6000.

PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated balance sheets as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in stockholders equity and changes in financial position for the years ended December 31, 2003, 2002 and 2001 are included in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus. Our unaudited consolidated balance sheet as of June 30, 2004 and the related consolidated statement of income, changes in stockholders equity and changes in financial position for the six months ended June 30, 2004 and 2003 are included in this prospectus.

We publish our financial statements in Mexican pesos and prepare our financial statements in accordance with generally accepted accounting principles in Mexico, or Mexican GAAP. Mexican GAAP differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Notes 25 and 26 to our audited consolidated financial statements as of and for the year ended December 31, 2003 and Notes 27 and 28 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2004 provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to our company, and a reconciliation to U.S. GAAP of majority net income and majority stockholders equity.

Unless otherwise specified, we have presented financial data for all full-year periods included in our consolidated financial statements in constant Mexican pesos at December 31, 2003. We have presented financial data as of June 30, 2004 and for the six months ended June 30, 2004 and June 30, 2003 in constant Mexican pesos at June 30, 2004. We believe that the effect of not restating the financial data for the full-year periods included in our consolidated financial statements in constant Mexican pesos at June 30, 2004 is not material, as the Mexican Consumer Price Index was 1.63% for the six months ended June 30, 2004.

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This prospectus contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, these U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 11.5123 to US$ 1.00, the exchange rate quoted by dealers to FEMSA for the settlement of obligations in foreign currencies on June 30, 2004. On June 30, 2004, the noon buying rate for Mexican pesos as published by the Federal Reserve Bank of New York was Ps. 11.538 to US$ 1.00. On October 19, 2004, the noon buying rate was Ps. 11.4580 to US$ 1.00.

Our subsidiary Coca-Cola FEMSA, S.A. de C.V., or Coca-Cola FEMSA, acquired Panamco on May 6, 2003. Unless otherwise indicated, our consolidated financial statements included or incorporated by reference in this prospectus include Panamco only from May 2003. As a result, our consolidated financial statements as of and for the year ended December 31, 2003 and as of and for the six months ended June 30, 2004 are not comparable to prior periods. These financial statements may also not be comparable to subsequent periods, as Panamco is only included in our consolidated financial statements for eight months in 2003.

The terms FEMSA, our company, we, us and our are used in this prospectus to refer to Fomento Económico Mexicano, S.A. de C.V., and, except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our subsidiary FEMSA Cerveza, S.A. de C.V. as FEMSA Cerveza, our subsidiary FEMSA Comercio, S.A. de C.V. as FEMSA Comercio, and our subsidiary FEMSA Empaques, S.A. de C.V., as FEMSA Empaques. References herein to U.S. dollars, US$ or $ are to the lawful currency of the United States. References herein to Mexican pesos, Pesos or Ps. are to the lawful currency of the United Mexican States or Mexico.

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SUMMARY

This summary highlights material information presented in detail elsewhere in this prospectus and in the documents incorporated by reference. You should read carefully this entire prospectus and the documents incorporated by reference.

FEMSA

Our Company

We are the largest Latin American integrated beverage company, based on total sales in 2003, and we have a portfolio of leading beer and soft drink brands. We are the second largest brewer in Mexico, based on sales volume in 2003. Through our subsidiary, Coca-Cola FEMSA, we are the largest Coca-Cola bottler in Latin America and the second largest in the world, based on sales volumes in 2003. We sell our products through approximately two million points of sale, which serve a population of over 170 million people in nine countries, including some of the most populous metropolitan areas in Latin America, such as Mexico City, São Paulo and Buenos Aires. Our manufacturing and distribution capabilities are enhanced by our retail and packaging operations. We operate Oxxo, the largest convenience store chain in Mexico. Our integrated business operations enable us to operate more efficiently and effectively and provide us with a platform for growth in Latin America.

The following chart provides an overview of our operations by segment:

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(1) Expressed in millions of Mexican pesos, except for ownership percentages. The sum of the financial data for each of our segments differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA which are not included in these four segments, including corporate services.

(2) Percentage of capital stock, equal to 53.6% of capital stock with full voting rights.

(3) On August 31, 2004, we acquired the remaining 30% interest in FEMSA Cerveza, and as a result of this acquisition as of the date of this prospectus FEMSA owns 100% of FEMSA Cerveza.

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Summary of Operations

Coca-Cola FEMSA s most important brand is *Coca-Cola*, which accounted for 60.2% of its total consolidated sales volume in 2003. Coca-Cola FEMSA depends on its bottler agreements with The Coca-Cola Company to have the right to bottle and distribute Coca-Cola trademark beverages in its territories. Coca-Cola FEMSA s territories represented approximately 40% of *Coca-Cola* sales volume in Latin America in 2003. Coca-Cola FEMSA s Mexican territories cover central Mexico, including Mexico City, and southeast Mexico. In 2003, 66.7% of Coca-Cola FEMSA s total revenue and 84.0% of its income from operations were generated in Mexico. In addition to Mexico, Coca-Cola FEMSA operates in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina.

Through FEMSA Cerveza, we produce and distribute 15 brands of beer in a variety of bottle and can presentations. The most important brands in our beer portfolio include *Tecate*, *Carta Blanca*, *Sol* and *Superior*, which together accounted for approximately 88% of our domestic beer sales volume in 2003. In 2003, we sold 91.9% of our total beer sales volume in the Mexican market, which is the eighth largest beer market in the world based on sales volume in 2003. We export our beer brands to more than 70 countries worldwide, with the United States being our most important export market. Our principal export brands are *Tecate*, *XX Lager*, *Dos Equis (Amber)* and *Sol*. Our *Tecate* beer brand currently is the fourth largest import brand in the United States, based on estimated sales volume in 2003. Our export sales represented 8.1% of our total beer sales volume in 2003.

Through FEMSA Comercio, we operated 2,798 Oxxo stores throughout Mexico at December 31, 2003. We have tripled the number of our Oxxo stores over the five years ended December 31, 2003 and expect to continue to increase the number of stores. FEMSA Comercio s sales increased at a compounded annual rate of 22% over the five years ended December 31, 2003. Oxxo stores exclusively sell our beer brands and represented 5.4% of FEMSA Cerveza s domestic sales volume in 2003. Soft drinks, telephone cards and cigarettes are the other main products sold at Oxxo stores.

In order to support our beverage operations, we manufacture and distribute a wide variety of packaging products, primarily in Mexico. Our principal packaging products are aluminum beverage cans, crown caps and glass bottles. The majority of our packaging products are sold to Coca-Cola FEMSA and FEMSA Cerveza.

Competitive Strengths

We believe the combination of our production, distribution and selling infrastructure creates a platform for growth in Latin America with the following competitive strengths:

Leading Market Position. We are among the largest beverage companies in our territories.

Broad Portfolio of Leading Brands. Our beverage products comprise 46 soft drink brands and 15 beer brands. Our brands include *Coca-Cola*, which is one of the most widely recognized brands in the world, and *Sol*, which we believe is the fastest growing brand of beer in the Mexican market in terms of sales volume for the three years ended December 31, 2003.

Well-Developed Distribution Network. We have the ability to distribute our beverage products throughout Latin America, including through many smaller mom and pop style retailers and Oxxo stores in Mexico.

Expanding Presence in U.S. Beer Market. Over the past several years, sales of Mexican beers in the United States have grown significantly faster than U.S. domestic brands.

Sophisticated Information Systems. We are making significant investments in our information gathering processing systems, which are gradually allowing us to be more efficient and effective in production, marketing and distribution.

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Strategy

Our ultimate objectives are achieving sustainable revenue growth, improving profitability and increasing the return on invested capital in each of our operations. We believe that by achieving these goals we will create sustainable value for our shareholders.

The following are the key elements of our strategy:

Grow Profitably in Beer. We seek to achieve profitable volume growth in our beer business in our core Mexican markets ultimately to generate value for our shareholders.

Increase Beer Sales in the United States. We seek to increase the sales of our beer brands in the United States through an agreement with Heineken USA, Inc., or Heineken USA, under which Heineken USA will become the exclusive distributor of our beers in the United States.

Enhance Profitability in Soft Drinks. Coca-Cola FEMSA seeks to increase its profitability by implementing well-planned product, package and pricing strategies and to increase per capita consumption of soft drinks in the territories in which it operates.

Continue to Expand Oxxo Chain. We plan to continue to expand the number of Oxxo stores in Mexico.

Improve Operating Efficiencies. We believe the size and scope of our businesses present us with opportunities to improve the efficiency of our operations and leverage our operating strengths across our company.

Risks and Challenges

We face numerous challenges and risks in operating our business and executing our strategy, many of which are outside our control. These risks include, among others, the following:

Coca-Cola FEMSA s dependence on its bottler agreements with The Coca-Cola Company;

changes in the markets in which we operate, including changes relating to consumer preferences and our ability to compete in those markets;

the increased leverage of FEMSA and Coca-Cola FEMSA as a result of recent acquisitions; and

the economic condition of, and regulatory and political developments in, Mexico and, to a lesser extent, the other countries in which we operate.

For a more detailed discussion of these and other risks relating to our company, the countries in which we operate and this offering, see Risk Factors.

Our legal name is Fomento Económico Mexicano, S.A. de C.V., and in commercial contexts we frequently refer to ourselves as FEMSA. Our principal executive offices are located at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410, Mexico. Our telephone number at this location is (52-81) 8328-6000. Our website is www.femsa.com. The contents of our website do not constitute part of this prospectus.

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Recent Developments

Interbrew Transactions

On August 31, 2004, we consummated a series of transactions with InBev S.A. (formerly known as Interbrew S.A., or Interbrew), or InBev, Labatt Brewing Company Limited, or Labatt, and certain of their affiliates pursuant to a series of agreements entered into on May 24, 2004, to terminate the existing arrangements between FEMSA Cerveza and Labatt. InBev was created from the combination of Interbrew and Companhia de Bebidas das Américas, or AmBev, that was consummated on August 27, 2004. As a result of these transactions:

FEMSA owns 100% of FEMSA Cerveza and existing arrangements among affiliates of FEMSA and Interbrew relating to governance, transfer of ownership and other matters with respect to FEMSA Cerveza have been terminated;

InBev indirectly owns 100% of its U.S. distribution and brewing subsidiaries, Labatt USA LLC and Latrobe Brewing Company LLC, which we collectively refer to as Labatt USA, and existing arrangements among affiliates of FEMSA and InBev relating to governance, transfer of ownership and other matters with respect to Labatt USA have been terminated; and

Labatt USA s right to distribute the FEMSA Cerveza brands in the United States will terminate on December 31, 2004.

We paid InBev US$ 1.245 billion for its affiliates 30% interest in FEMSA Cerveza, which was financed as follows:

Source	Amount (U.S. dollar or equivalent)	
Cash	US$	295 million
Bridge loans to FEMSA, borrowed on August 23, 2004, maturing one year from the borrowing date and consisting of a Ps. 2.878 billion loan and a US$ 250 million loan, to be refinanced with the net proceeds of the global offering and the Mexican B Unit offerings	US$	500 million
Certificados bursátiles, issued on July 8, 2004, in the amount of Ps. 2.500 billion by FEMSA and guaranteed by FEMSA Cerveza, with maturities of four and five years	US$	217 million
Term loan to FEMSA, borrowed on August 20, 2004, in the amount of Ps. 1.763 billion, maturing four years from the borrowing date	US$	150 million
Term loan to FEMSA Cerveza, borrowed on August 20, 2004, in the amount of Ps. 1.155 billion (the equivalent of US$ 83 million of which was used to finance the payment to InBev, with the balance used for general corporate purposes), maturing five years from the borrowing date	US$	83 million
Total	US$	1,245 million

Heineken U.S. Distribution Agreements

On June 21, 2004, FEMSA Cerveza and two of its subsidiaries entered into distributor and sublicense agreements with Heineken USA. In accordance with these agreements, Heineken USA will be the exclusive importer, marketer and seller of FEMSA Cerveza s brands in the United States, commencing on January 1, 2005. These agreements will expire on December 31, 2007.

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Other Recent Developments

On June 8, 2004, a group of Brazilian investors, among them Mr. José Luis Cutrale, a recently appointed member of Coca-Cola FEMSA s board of directors, made a capital contribution equivalent to approximately US$ 50 million to Coca-Cola FEMSA s Brazilian operations in exchange for a 16.9% equity stake in these operations. Mr. Cutrale is a Brazilian entrepreneur and owns businesses that are producers of fruit juices, with customers that include The Minute Maid Company, a division of The Coca-Cola Company.

On June 22, 2004, FEMSA Cerveza s brewing subsidiary and Coors Brewing Company entered into an agreement pursuant to which FEMSA Cerveza s subsidiary was appointed the exclusive importer, distributor, marketer and seller of *Coors Light* beer in Mexico. This agreement has an initial term of 10 years and is automatically renewable.

In May 2004, our subsidiary Coca-Cola FEMSA obtained a favorable final ruling not subject to appeal from a Mexican federal court allowing it to deduct a tax loss carry forward arising from a sale of shares during 2002. As a result of the ruling, our consolidated net income for the first six months of 2004 increased by Ps. 1.258 billion. In August 2004, we received Ps. 1.124 billion in the form of a cash reimbursement and will receive the balance in the form of a tax deduction.

On August 24, 2004, the Mexican Antitrust Commission announced that it was launching an investigation into beer industry practices with respect to exclusivity arrangements in general. FEMSA and FEMSA Cerveza received requests for information on September 15, 2004 from the Mexican Antitrust Commission, and we are currently reviewing these requests in order to formulate a response. On October 7, 2004, we initiated an equitable proceeding *(amparo)* before a Mexican federal court to challenge the constitutionality of the Mexican Antitrust Commission s investigation. We cannot give any assurance that any action in the future taken as a result of this investigation will not negatively affect us.

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SUMMARY FINANCIAL INFORMATION

Historical

The following tables present selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements and the notes thereto included in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus, and our unaudited consolidated financial statements and notes thereto included in this prospectus. The selected financial information is presented on a consolidated basis and is not necessarily indicative of our financial position or results of operations at or for any future date or period.

Information as of and for the five years ended December 31, 2003 has been derived from our audited consolidated financial statements, and information as of and for the six months ended June 30, 2003 and June 30, 2004 has been derived from our unaudited consolidated financial statements.

	Year Ended December 31,					
	2003(1)	2003	2002	2001	2000	1999
	(in millions of U.S. dollars and constant Mexican pesos at December 31, 2003, except for per share data and the weighted average number of shares outstanding)					
Income Statement Data						
Mexican GAAP:						
Total revenues	$ 6,592	Ps. 75,891	Ps.55,395	Ps.52,465	Ps.50,151	Ps.45,463
Income from operations	1,050	12,084	9,791	8,868	7,957	7,173
Taxes(2)	293	3,378	3,764	3,069	2,615	2,253
Change in accounting principle				(30)		
Net income	405	4,657	4,791	5,215	3,995	4,734
Net majority income	269	3,093	2,947	3,547	2,865	3,587
Net minority income	136	1,564	1,844	1,668	1,130	1,147
Net majority income:(3)						
Per Series B Share	0.05	0.52	0.50	0.60	0.48	0.60
Per Series D Share	0.06	0.65	0.62	0.75	0.60	0.75
Weighted average number of shares outstanding (millions):						
Series B Shares	2,737.7	2,737.7	2,737.7	2,737.8	2,745.8	2,746.5
Series D Shares	2,559.6	2,559.6	2,559.6	2,559.8	2,591.8	2,594.8
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	45.85%	45.85%
Series D Shares	53.89%	53.89%	53.89%	53.89%	54.15%	54.15%
U.S. GAAP:						
Total revenues	$ 6,592	Ps. 75,891	Ps.55,048	Ps.54,815	Ps.52,154	Ps.48,296
Income from operations	1,011	11,642	8,723	8,133	7,009	6,644
Change in accounting principle				(54)		21
Net minority income	140	1,608	1,876	1,645	1,200	1,145
Net income	284	3,271	3,206	3,305	2,673	2,306
Net income:(3)						
Per Series B Share	0.05	0.55	0.54	0.56	0.45	0.38
Per Series D Share	0.06	0.69	0.67	0.70	0.56	0.48

Balance Sheet Data						
Mexican GAAP:						
Total assets	$ 9,063	Ps.104,334	Ps.62,660	Ps.53,320	Ps.50,111	Ps.48,781
Current liabilities	1,452	16,716	12,314	8,954	8,759	8,834
Long-term debt(4)	2,896	33,345	10,192	7,399	8,005	8,343
Other long-term liabilities	710	8,175	5,856	5,568	5,592	978
Capital stock	369	4,243	4,243	4,243	4,249	4,271
Total stockholders equity	4,004	46,098	34,298	31,399	27,755	30,626
Majority interest	2,467	28,400	24,024	22,127	19,509	21,813
Minority interest	1,537	17,698	10,274	9,272	8,246	8,813

(Footnotes on next page)

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	Year Ended December 31,					
	2003(1)	2003	2002	2001	2000	1999
	(in millions of U.S. dollars and constant Mexican pesos at December 31, 2003, except for per share data and the weighted average number of shares outstanding)					
U.S. GAAP:						
Total assets	$ 10,380	Ps.119,496	Ps.78,688	Ps.70,212	Ps.69,482	Ps.67,964
Current liabilities	1,670	19,220	14,142	10,964	11,006	11,188
Long-term debt(4)	3,054	35,160	11,308	8,507	8,029	8,350
Other long-term liabilities	503	5,789	5,019	5,015	6,543	6,632
Minority interest	1,495	17,215	9,986	9,129	8,670	7,934
Capital stock	369	4,243	4,243	4,243	4,249	4,271
Stockholders equity	3,658	42,112	38,233	36,597	35,234	33,860
Other Information						
Mexican GAAP:						
Depreciation(5)	$ 272	Ps. 3,126	Ps. 2,523	Ps. 2,406	Ps. 2,534	Ps. 2,316
Capital expenditures(6)	590	6,789	5,780	5,531	4,764	4,536
Operating margin(7)	15.9%	15.9%	17.7%	16.9%	15.9%	15.8%
U.S. GAAP:						
Depreciation(5)	$ 278	Ps. 3,199	Ps. 2,400	Ps. 2,393	Ps. 2,450	Ps. 2,227
Operating margin(7)	15.3%	15.3%	15.8%	14.8%	13.4%	13.8%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 11.5123 to US$ 1.00 solely for the convenience of the reader.

(2) Includes income tax, tax on assets and employee profit sharing.

(3) The net income (after changes in accounting principles) per Series B Share and per Series D Share was calculated in accordance with Bulletin B-14 of Mexican GAAP, which is similar to SFAS No. 128 of U.S. GAAP. The following table presents the calculations of the weighted average number of shares and income per share allocation:

	Series B Shares		Series D Shares	
	Number of Shares	Weighted Average	Number of Shares	Weighted Average
	(in millions of shares)			
At December 31, 1999	2,746.546	2,746.546	2,594.794	2,594.794
Allocation of earnings		45.85%		54.15%
Repurchase of our shares in 2000 from October 29, 2000 to December 29, 2000	6.750	0.736	27.000	2.945
At December 31, 2000	2,739.796	2,745.810	2,567.794	2,591.849
Allocation of earnings		45.85%		54.15%
Repurchase of our shares in 2001 from January 4, 2001 to January 16, 2001	2.056	2.005	8.224	8.019
At December 31, 2001	2,737.740	2,737.791	2,559.570	2,559.776
Allocation of earnings		46.11%		53.89%
At December 31, 2002 and 2003	2,737.740	2,737.740	2,559.570	2,559.570
Allocation of earnings		46.11%		53.89%

(4) Includes long-term debt minus the current portion of long-term debt.

(5) Includes bottle breakage for Coca-Cola FEMSA.

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

(7) Operating margin is calculated by dividing income from operations by total revenues.

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	Six Months Ended June 30,		
	2004[(1)]	2004	2003
	(in millions of U.S. dollars and constant Mexican pesos at June 30, 2004, except per share data)		
Income Statement Data			
Mexican GAAP:			
Total revenues	$ 3,798	Ps. 43,712	Ps. 33,439
Income from operations	541	6,208	5,298
Taxes[(2)]	168	1,920	1,329
Extraordinary items	102	1,175	
Net income	359	4,130	1,827
Net majority income	211	2,434	1,217
Net minority income	148	1,696	610
Net majority income:[(3)]			
Per Series B Share:			
Before extraordinary items	0.03	0.32	0.21
Extraordinary items	0.01	0.09	
Per Series D Share:			
Before extraordinary items	0.04	0.40	0.26
Extraordinary items	0.01	0.11	
U.S. GAAP:			
Total revenues	$ 3,797	Ps. 43,712	Ps. 33,109
Income from operations	503	5,785	4,593
Extraordinary items	102	1,175	
Net minority income	150	1,727	562
Net income	219	2,520	1,349
Net majority income:[(3)]			
Per Series B Share:			
Before extraordinary items	0.03	0.33	0.23
Extraordinary items	0.01	0.09	
Per Series D Share:			
Before extraordinary items	0.04	0.41	0.28
Extraordinary items	0.01	0.11	
Balance Sheet Data			
Mexican GAAP:			
Total assets	$ 9,316	Ps.107,246	Ps.105,107
Current liabilities	1,433	16,491	19,426
Long-term debt[(4)]	2,760	31,774	34,248
Other long-term liabilities	680	7,826	7,995
Minority interest in consolidated subsidiaries	1,752	20,176	16,601
Capital stock	375	4,312	4,312
Majority interest	2,691	30,979	26,837
Total stockholders equity	4,443	51,155	43,438
U.S. GAAP:			
Total assets	$ 10,755	Ps.123,816	Ps.120,541
Current liabilities	1,605	18,475	20,950
Long-term debt[(4)]	2,890	33,271	34,248
Other long-term liabilities	639	7,362	8,417
Minority interest	1,721	19,809	16,365
Capital stock	375	4,312	4,312
Stockholders equity	3,900	44,899	40,561
Other Information			
Mexican GAAP:			
Depreciation[(5)]	$ 154	Ps. 1,768	Ps. 1,373
Capital expenditures[(6)]	251	2,884	3,129
Operating margin[(7)]	14.2%	14.2%	15.8%
U.S. GAAP:			
Depreciation[(5)]	$ 155	Ps. 1,783	Ps. 1,345
Operating margin[(7)]	13.2%	13.2%	13.9%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 11.5123 to US$ 1.00 solely for the convenience of the reader.
(2) Includes income tax, tax on assets and employee profit sharing.
(3) Income per share calculations are based on the weighted average number of shares and income per share allocation, as follows:

Millions of:	Weighted average number of shares	Allocation of earnings
Series B shares	2,737.740	46.11%
Series D shares	2,559.570	53.89%

(4) Includes long-term debt minus the current portion of long-term debt.
(5) Includes bottle breakage for Coca-Cola FEMSA.
(6) Includes investments in property, plant and equipment and deferred charges.
(7) Operating margin is calculated by dividing income from operations by total revenue.

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Pro Forma

The following table presents pro forma income statement and balance sheet information for our company giving effect to the acquisition of Panamco and the Interbrew transactions and related financing transactions, including the repayment of the bridge loans with the net proceeds of the global offering and the Mexican B Unit offerings, as if each had occurred on January 1, 2003 and pro forma balance sheet as if each transaction had occurred on June 30, 2004. The unaudited pro forma information should be read in conjunction with the unaudited financial statements and related footnotes contained in this prospectus.

	Year Ended December 31, (Pro Forma)		Six Months Ended June 30, (Pro Forma)	
	2003[1]	2003	2004[1]	2004
	(in millions of U.S. dollars or Mexican pesos at December 31, 2003 and June 30, 2004, as applicable, except for per share data)			
Income Statement Data				
Mexican GAAP:				
Total revenues	$ 7,311	Ps.84,168	$3,797	Ps.43,712
Income from operations	1,141	13,141	539	6,208
Net income before extraordinary items	420	4,840	249	2,870
Net majority income before extraordinary items	127	1,459	182	2,095
Net minority income before extraordinary items	294	3,381	67	775
Net majority income before extraordinary items[2]:				
Per Series B Share	0.04	0.51	0.03	0.32
Per Series D Share	0.06	0.64	0.03	0.40
U.S. GAAP:				
Total revenues	$ 7,311	Ps.84,168	$3,797	Ps.43,712
Income from operations	1,102	12,691	512	5,894
Net minority income before extraordinary items	126	1,449	71	812
Net income before extraordinary items	313	3,605	189	2,175
Net income before extraordinary items[2]:				
Per Series B Share	0.05	0.55	0.03	0.33
Per Series D Share	0.06	0.68	0.04	0.41
Balance Sheet Data				
Mexican GAAP:				
Total assets			$9,772	Ps.112,495
Current liabilities			1,432	16,491
Long-term debt[4]			3,210	36,957
Other long-term liabilities			681	7,826
Minority interest			1,268	14,596
Majority interest			3,181	36,625
Total stockholders equity			4,449	51,221
U.S. GAAP:				
Total assets			$ 11,211	Ps.129,065
Current liabilities			1,605	18,475
Long-term debt[4]			3,340	38,454
Other long-term liabilities			639	7,362
Minority interest			1,251	14,401
Stockholders equity			4,376	50,373

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.11.5123 to US$ 1.00 solely for the convenience of the reader.

(2) Income per share calculations are based on the weighted average number of shares and income per share allocation, as follows:

Millions of:

	Weighted average number of shares	Allocation of earnings
Series B shares	3,002.523	45.56%
Series D shares	3,588.003	54.44%

(3) Includes long-term debt minus the current portion of long-term debt.

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THE OFFERINGS

The global offering	We are offering BD Units (including BD Units in the form of ADSs) in a global offering, consisting of the international offering and the concurrent Mexican BD Unit offering.
The international offering	We are offering ADSs in an international offering. Each ADS represents 10 of our BD Units. Each BD Unit represents one of our Series B Shares, two of our Series D-B Shares and two of our Series D-L Shares.
The concurrent Mexican BD Unit offering	Concurrently with the international offering, we are offering BD Units in a public offering in Mexico.
The Mexican B Unit offerings	Concurrently with the global offering, B Units are being offered in a Mexican public offering and in an offering to the voting trust and other holders of B Units. Each B Unit represents five of our Series B Shares. The B Units will be sold at the equivalent of the public offering price per BD Unit in the concurrent Mexican BD Unit offering. A voting trust, the participants of which are members of five families, several of whom are members of our board of directors, owns 91.8% of our B Units as of September 15, 2004 and is expected to acquire substantially all of the B Units in the Mexican B Unit offerings.
Over-allotment options	We have granted options, exercisable for 30 days, to the underwriters of the global offering to purchase up to additional BD Units in the form of ADSs or BD Units to cover over-allotments, if any.
Share allocation programs	Beneficial owners of outstanding ADSs as of , 2004, which is the record date, will be eligible, subject to compliance with the procedures and conditions summarized in this prospectus, to purchase up to ADSs for each ADS beneficially owned by them as of the record date through a share allocation program in the international offering. The conditions include, among others, consent to the electronic delivery of documents. Beneficial owners of outstanding BD Units not in the form of ADSs will also be eligible, subject to compliance with applicable procedures and conditions, to purchase BD Units through a share allocation program in the concurrent Mexican BD Unit offering.
	Beneficial owners of ADSs and BD Units who fail or are unable to comply with the applicable procedures and conditions in a timely manner will not be eligible to receive an allocation of ADSs or BD Units, as applicable.
	Any ADSs or BD Units not allocated to or purchased by beneficial owners in the share allocation programs in the global offering will be offered by the underwriters on the same basis as the other ADSs or BD Units offered in the global offering.

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	Holders of ADSs or BD Units may seek to purchase ADSs or BD Units in the global offering in addition to any ADSs or BD Units they are eligible to purchase in the share allocation programs.
Share allocation program in the international offering	Morgan Stanley & Co. Incorporated, one of the underwriters in the international offering, is administering, on behalf of FEMSA, the share allocation program in the international offering. For information on the procedures and conditions that a beneficial owner of ADSs must comply with to participate in the share allocation program, see Share Allocation Programs Share Allocation Program in International Offering.
	We have appointed MacKenzie Partners, Inc. to act as information agent for the share allocation program in the international offering. The information agent may be contacted at +1-800-322-2885 (toll-free in the U.S.) or +1-212-929-5500 (collect) to answer questions with respect to the share allocation program in the international offering.
Share allocation program in the concurrent Mexican BD Unit offering	Acciones y Valores de México, S.A. de C.V., Casa de Bolsa, Integrante del Grupo Financiero Banamex, one of the underwriters in the concurrent Mexican BD Unit offering, is administering, on behalf of FEMSA, the share allocation program in the concurrent Mexican BD Unit offering. For information on the procedures and conditions for purchasing BD Units in the share allocation program in the concurrent Mexican BD Unit offering, see Share Allocation Programs Share Allocation Program in Concurrent Mexican BD Unit Offering and our related report on Form 6-K to be filed with the SEC and which is incorporated by reference in this prospectus.
Outstanding share capital	As of June 30, 2004, we had outstanding 419,569,500 B Units and 639,892,590 BD Units, which together consist of 2,737,740,090 Series B Shares and 1,279,785,180 Series D-B Shares and Series D-L Shares. As of August 31, 2004, 68.4% of the BD Units were held in the form of ADSs.
	Immediately after completion of the global offering and the Mexican B Unit offerings, and assuming no exercise of the underwriters over-allotment options, we will have outstanding B Units and BD Units, including BD Units held in the form of ADSs, which together will consist of Series B Shares and Series D-B Shares and Series D-L Shares.
Voting trust	As of September 15, 2004, a voting trust owned 36.4% of our capital stock and 70.4% of our capital stock with full voting rights, consisting of the Series B Shares. Immediately after completion of the global offering and the Mexican B Unit offerings, and assuming no exercise of the underwriters over-allotment options, the voting trust will own

	% of our capital stock and % of our capital stock with full voting rights. Assuming exercise of the underwriters over-allotment options in full, the voting trust will own % of our capital stock and % of our capital stock with full voting rights.
Dividends	The holders of our ADSs will receive dividends to the same extent as the holders of our BD Units, subject to the deduction of any fees and charges of the ADS depositary. Before May 11, 2008, the Series D-B Shares and the Series D-L Shares will receive 125% of any dividend distributed in respect of the Series B Shares. See Dividends and Dividend Policy.
Voting rights	Each BD Unit consists of one Series B Share with full voting rights and two Series D-B Shares and two Series D-L Shares, each with limited voting rights, as described in this prospectus.
Use of proceeds	The aggregate net proceeds from the global offering will be used to repay indebtedness in respect of bridge loans incurred in connection with the Interbrew transactions and the remaining amounts will be used for general corporate purposes.
Listings	The ADSs are listed on the New York Stock Exchange under the symbol FMX, and the ADSs purchased in the international offering will be listed and traded on the New York Stock Exchange upon issuance.
	The BD Units are listed on the Mexican Stock Exchange under the symbol FEMSA UBD, and the BD Units purchased in the concurrent Mexican BD Unit offering will be listed and traded on the Mexican Stock Exchange upon issuance.
ADS depositary	The Bank of New York.
Risk factors	See Risk Factors for information you should consider before purchasing ADSs or BD Units in the global offering.

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Unless otherwise specified, share amounts in this prospectus do not reflect the exercise of the underwriters over-allotment options.

This prospectus relates to the offer and sale of ADSs in the international offering and the offer and sale of BD Units in the share allocation program in the concurrent Mexican BD Unit offering to beneficial owners of BD Units as of the record date who are U.S. persons or otherwise inside the United States. In addition, this prospectus relates to BD Units that are being offered in the concurrent Mexican BD Unit offering, but that may be resold from time to time in the United States in transactions requiring registration under the Securities Act of 1933. This prospectus does not relate to the Mexican B Unit offerings or, except as indicated above, to the concurrent Mexican BD Unit offering.

The BD Units underlying the ADSs being sold pursuant to this prospectus will be registered in the Securities Section (*Sección de Valores*) and the Special Section (*Sección Especial*) of the National Registry of Securities (*Registro Nacional de Valores*), or Registry, maintained by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*), or the CNBV. Registration of the BD Units with the Registry does not imply any certification as to the investment quality of the BD Units, our solvency or the accuracy or completeness of the information contained or incorporated by reference in this prospectus.

The global offering will not be registered or qualified in any jurisdiction other than the United States and Mexico. Offers and sales of ADSs or BD Units pursuant to the share allocation programs, and the global offering generally, will be made only in jurisdictions where, and to persons to whom, it is lawful to do so.

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RISK FACTORS

Risks Related to Our Company

Coca-Cola FEMSA

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

Approximately 93.2% of Coca-Cola FEMSA s sales volumes in 2003 were derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages through standard bottler agreements that cover all of Coca-Cola FEMSA s present territories.

Under Coca-Cola FEMSA s bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. Coca-Cola FEMSA prepares a three-year general business plan that is submitted to Coca-Cola FEMSA s board of directors for approval. The Coca-Cola Company may require that Coca-Cola FEMSA demonstrates its financial ability to meet Coca-Cola FEMSA s plans and may terminate Coca-Cola FEMSA s rights to produce, market and distribute soft drinks in territories with respect to which such approval is withheld. The Coca-Cola Company also makes significant contributions to Coca-Cola FEMSA s marketing budget although it is not required to contribute a particular amount. In addition, Coca-Cola FEMSA is prohibited from bottling any soft drink product or distributing other beverages without The Coca-Cola Company s authority or consent. The Coca-Cola Company has the exclusive right to import and export *Coca-Cola* trademark beverages to and from Coca-Cola FEMSA s territories. Coca-Cola FEMSA may not transfer control of the bottler rights of any of its territories without the consent of The Coca-Cola Company.

Coca-Cola FEMSA depends on The Coca-Cola Company to renew its bottler agreements. Two of Coca-Cola FEMSA s bottler agreements for Mexico, which together were responsible for almost half of Coca-Cola FEMSA s total sales for Mexico in 2003, expire in May 2005 and the remaining two expire in 2013, renewable in each case for ten-year terms. The bottler agreements for Brazil expired in April 2004 and the bottler agreement for Colombia will expire in December 2004, renewable in each case for five-year terms. Coca-Cola FEMSA is currently in the process of renewing these agreements. Coca-Cola FEMSA s remaining territories are governed by bottler agreements that expire after 2005 and have similar renewal periods. There can be no assurances that The Coca-Cola Company will decide to renew any of these agreements. In addition, these agreements generally may be terminated in the event that Coca-Cola FEMSA fails to comply with their terms. Non-renewal or termination would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on Coca-Cola FEMSA s business, financial condition, prospects and results of operations.

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA s business, which may result in Coca-Cola FEMSA taking actions contrary to the interest of Coca-Cola FEMSA s other shareholders.

As of June 30, 2004, The Coca-Cola Company indirectly owned 39.6% of Coca-Cola FEMSA s outstanding capital stock, representing 46.4% of the voting rights in Coca-Cola FEMSA. The Coca-Cola Company is entitled to appoint four of Coca-Cola FEMSA s 18 directors and certain of Coca-Cola FEMSA s executive officers and, except under limited circumstances, has the power to veto significant decisions of Coca-Cola FEMSA s board of directors. Thus, The Coca-Cola Company has the power to affect the outcome of all actions requiring approval by Coca-Cola

FEMSA s board of directors and, except in certain limited situations, has the power to affect the outcome of all actions requiring approval of Coca-Cola FEMSA s shareholders. In addition, through its rights under the bottler agreements, The Coca-Cola Company has the ability to exercise substantial influence over the conduct of Coca-Cola FEMSA s business. The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA s remaining shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interest of Coca-Cola FEMSA s remaining shareholders.

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

Coca-Cola FEMSA engages in transactions with subsidiaries of The Coca-Cola Company. Coca-Cola FEMSA has entered into cooperative marketing arrangements with The Coca-Cola Company. Coca-Cola FEMSA is a party to a number of bottler agreements with The Coca Cola Company and has also entered into a credit agreement with The Coca-Cola Company pursuant to which Coca-Cola FEMSA may borrow up to US$ 250 million for working capital and other general corporate purposes. Transactions with affiliates may create the potential for conflicts of interest, which could result in terms less favorable to Coca-Cola FEMSA than could be obtained from an unaffiliated third party.

Coca-Cola FEMSA has recently significantly increased its leverage as a result of the Panamco acquisition, which may adversely affect its business.

In connection with the acquisition of Panamco, Coca-Cola FEMSA incurred approximately Ps. 26.4 billion of debt (including existing debt of Panamco). Coca-Cola FEMSA s total indebtedness as of June 30, 2004 was Ps. 26.7 billion. Its debt level is now significantly higher than it has been historically. The increase in debt may reduce the amount of cash otherwise available to Coca-Cola FEMSA to invest in its business or meet its obligations and may prevent it in the future from pursuing acquisitions and other opportunities that may present themselves to Coca-Cola FEMSA or from obtaining additional financing or completing refinancings on terms favorable to Coca-Cola FEMSA.

Coca-Cola FEMSA may not achieve expected operating efficiencies in the newly acquired territories, which may adversely affect its sales growth and operating margins.

Through the acquisition of Panamco, Coca-Cola FEMSA acquired new territories in Mexico as well as in the following countries in which it has not historically conducted operations: Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil. Since the acquisition, Coca-Cola FEMSA has undertaken a plan in the newly acquired territories to integrate Coca-Cola FEMSA s operations, to improve the utilization of assets across Coca-Cola FEMSA s territories and to implement the commercial strategies that Coca-Cola FEMSA has historically applied in its territories in Mexico and Argentina. Conditions in these new territories are different from the conditions under which Coca-Cola FEMSA has historically operated including, for example, less favorable consumption patterns than those experienced in Mexico and different and more challenging political, labor and economic climates. In addition, distribution and marketing practices in Coca-Cola FEMSA s new territories differ from Coca-Cola FEMSA s historical practices. Several of these territories have a lower level of pre-sale (a distribution method in which the sales and delivery functions are separated and trucks are loaded with the actual mix of products that retailers have previously ordered) as a percentage of total distribution than Coca-Cola FEMSA is accustomed to having, and product offering and packaging varies from territory to territory with customer preferences. Coca-Cola FEMSA s ability to realize operating efficiencies in Mexico to date has been adversely affected by changes in the competitive conditions in the Mexican soft drink market. There can be no assurance that Coca-Cola FEMSA s initiatives will reduce operating costs or maintain or improve sales in the near term or at all, which may adversely affect Coca-Cola FEMSA s sales growth and operating margins.

Competition could adversely affect Coca-Cola FEMSA s financial performance.

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

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Coca-Cola FEMSA s principal competitor in Mexico is The Pepsi Bottling Group, or PBG. PBG is the largest Pepsi bottler worldwide and competes with *Coca-Cola* trademark beverages. Coca-Cola FEMSA has also experienced stronger competition in Mexico from lower priced soft drinks in larger, multiple serving packaging. In Argentina and Brazil, Coca-Cola FEMSA competes with AmBev, the largest brewer in Latin America, which sells Pepsi products, in addition to a portfolio that includes local brands with flavors such as guaraná and proprietary beers. In each of Coca-Cola FEMSA s territories it competes with Pepsi bottlers and with various other bottlers and distributors of national and regional soft drinks as well as complementary beverages such as water, juice and sports drinks. In certain territories, Coca-Cola FEMSA also competes with soft drink flavors that have a strong local presence, such as *La Colombiana* in Colombia.

A water shortage or a failure to maintain existing concessions could adversely affect Coca-Cola FEMSA s business.

Water is an essential component of soft drinks. Coca-Cola FEMSA obtains water from various sources in its territories, including springs, wells, rivers and municipal water companies. In Mexico, Coca-Cola FEMSA purchases water from municipal water companies and pumps water from its own wells pursuant to concessions granted by the Mexican government. Coca-Cola FEMSA obtains the vast majority of the water used in its soft drink production in Mexico pursuant to these concessions, which the Mexican government granted based on studies of the existing and projected groundwater supply. Coca-Cola FEMSA s existing water concessions in Mexico may be terminated by governmental authorities under certain circumstances, and their renewal depends on receiving necessary authorizations from municipal and/or federal water authorities. In Coca-Cola FEMSA s other territories, its existing water supply may not be sufficient to meet its future production needs and the available water supply may be adversely affected by shortages or changes in governmental regulations.

Coca-Cola FEMSA cannot assure that water will be available in sufficient quantities to meet its future production needs, or that its concessions will not be terminated or will prove sufficient to meet its water supply needs.

Increases in the prices of raw materials would increase Coca-Cola FEMSA s cost of sales and may adversely affect its results of operations.

Coca-Cola FEMSA s most significant raw materials are concentrate, which it acquires from companies designated by The Coca-Cola Company, sweeteners and packaging materials. Prices for concentrate are determined by The Coca-Cola Company pursuant to its bottler agreements as a percentage of the weighted average retail price, net of applicable taxes. The prices for remaining raw materials are driven by market prices and local availability as well as the imposition of import duties and import restrictions and fluctuations in exchange rates. Coca-Cola FEMSA is also required to meet all of its supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to Coca-Cola FEMSA. Coca-Cola FEMSA s sales prices are denominated in the local currency in which it operates, while the prices of certain materials used in the bottling of its products, mainly aluminum cans and plastic bottles, are paid in or determined with reference to the U.S. dollar and therefore may increase if the U.S. dollar appreciates against the currency of any country in which it operates, particularly against the Mexican peso.

After concentrate, packaging and sweeteners constitute the largest portion of Coca-Cola FEMSA s raw material costs. Sugar prices in all of the countries in which Coca-Cola FEMSA operates other than Brazil are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay in excess of international market prices for sugar. In Mexico, sugar prices increased approximately 8% in 2003, and Coca-Cola FEMSA s ability to substitute other sweeteners has been limited by the imposition of a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners. In Venezuela, there was a shortage of sugar during the second half of 2003 due to the inability of the main sugar importers to access foreign currencies as a result of the exchange controls implemented at the beginning of 2003.

Coca-Cola FEMSA cannot assure that its raw material prices will not increase in the future. Increases in the prices of raw materials would increase Coca-Cola FEMSA s cost of sales and may adversely affect its results of operations.

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Taxes on soft drinks could adversely affect Coca-Cola FEMSA s business.

Coca-Cola FEMSA s products are subject to excise and value-added taxes in many of the countries in which it operates. The imposition of new taxes or increases in taxes on Coca-Cola FEMSA s products may have a material adverse effect on its business, financial condition, prospects and results of operations. In 2003, Mexico implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners. Certain countries in Central America, Argentina and Brazil have also imposed taxes on carbonated soft drinks. Coca-Cola FEMSA cannot assure that any governmental authority in any country where it operates will not impose or increase any such taxes in the future.

Regulatory developments may adversely affect Coca-Cola FEMSA s business.

Coca-Cola FEMSA is subject to regulation in each of the territories in which it operates. The principal areas in which Coca-Cola FEMSA is subject to regulation are environment, labor, taxes and antitrust. The adoption of new laws or regulations in the countries in which Coca-Cola FEMSA operates may increase its operating costs or impose restrictions on its operations which, in turn, may adversely affect Coca-Cola FEMSA s financial condition, business and results of operations. In particular, environmental standards are becoming more stringent recently in several of the countries in which Coca-Cola FEMSA operates, and Coca-Cola FEMSA is in the process of complying with these new standards. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on Coca-Cola FEMSA s future results of operations or financial condition.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which Coca-Cola FEMSA operates. The imposition of these restrictions may have an adverse effect on its results of operations and financial position. Although Mexican bottlers have been free to set prices for carbonated soft drinks without governmental intervention since January 1996, such prices had been subject to statutory price controls and to voluntary price restraints, which effectively limited Coca-Cola FEMSA s ability to increase prices in the Mexican market without governmental consent. Coca-Cola FEMSA cannot assure that governmental authorities in any country where Coca-Cola FEMSA operates will not impose statutory price controls or voluntary price restraints.

FEMSA Cerveza

Unfavorable economic conditions in Mexico or the United States may adversely affect FEMSA Cerveza s business.

Demand for the products of FEMSA Cerveza may be affected by economic conditions in Mexico or the United States. In particular, demand in our northern stronghold regions in Mexico, where there are a large number of border towns, may be disproportionately affected by the performance of the United States economy. In addition, our exports to the United States may be affected by reduced demand from the United States or from a reduction in prices by our competitors. Any depreciation of the Mexican peso may negatively affect our results of operations because a significant portion of our costs and expenses are denominated in, or determined by reference to, the U.S. dollar.

Uncertainty in commodity prices of raw materials used in beer production may result in increased costs and adversely affect our results of operations.

FEMSA Cerveza purchases a number of commodities for the production of its products (principally barley, malt and hops) from Mexican producers and in the international market. The prices of such commodities can fluctuate and are determined by global supply and demand and other factors, including changes in exchange rates, over which FEMSA Cerveza has no control. There can be no assurance that FEMSA Cerveza will be able to recover increases in the cost of raw materials. An increase in raw materials costs would adversely affect our results of operations.

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FEMSA Cerveza s new United States distribution arrangements may adversely affect sales of our beer brands in the United States.

Commencing January 1, 2005, Heineken USA will replace Labatt USA as the exclusive importer, marketer and distributor of FEMSA Cerveza s beer brands in the United States. Accordingly, FEMSA Cerveza s exports to the United States during the three-year term of the distributor agreement will depend to a significant extent on Heineken USA s performance under this agreement. Heineken USA has no prior experience importing, marketing or distributing FEMSA Cerveza s beer brands. We cannot assure that Heineken USA will be able to maintain or increase sales of FEMSA Cerveza s beer brands in the United States or that, upon expiration of the agreement, FEMSA Cerveza will be able to renew the agreement or enter into a substitute arrangement on comparable terms.

FEMSA Cerveza s sales in the Mexican market depend on its ability to compete with Grupo Modelo.

FEMSA Cerveza faces competition in the Mexican beer market from Grupo Modelo, S.A. de C.V., or Grupo Modelo. FEMSA Cerveza s ability to compete successfully in the Mexican beer market will have a significant impact on its Mexican sales.

Competition from imports in the Mexican beer market is increasing and may adversely affect FEMSA Cerveza s business.

Imports do not currently constitute a significant portion of the Mexican beer market. Under the North American Free Trade Agreement, or NAFTA, the tariffs applicable to beers imported from the United States and Canada were eliminated in January 2001. During 2003 imports grew 10.6% versus 2002 and represented 1.8% of the Mexican beer market. FEMSA Cerveza believes that imports will continue to represent a small percentage of the Mexican beer market. Increased import competition, however, could lead to greater competition in general, and we cannot assure that such a trend would not adversely affect FEMSA Cerveza s business, financial condition and results from operations.

Regulatory developments in Mexico could adversely affect FEMSA Cerveza s business.

FEMSA Cerveza s business is subject to a variety of different Mexican government regulations, both federal and local, and may be affected by changes in law, regulation or regulatory policy. Actions of Mexican federal and local authorities, in particular changes in governmental policy with respect to excise and value-added tax laws, cold beer regulation or the beer industry practice of tied-customer arrangements, which are agreements with retailers to sell and promote its products, may have a material adverse impact on FEMSA Cerveza s business, financial condition and results of operations.

Federal regulation of beer consumption in Mexico is primarily effected through a 25% excise tax and a 15% value-added tax. Currently, we do not anticipate an increase in these taxes, but federal regulation relating to excise taxes may change in the future, resulting in an increase or decrease in the tax. Local regulations are primarily effected through the issuance of licenses authorizing retailers to sell alcoholic beverages. Other regulations affecting beer consumption in Mexico vary according to local jurisdictions and include limitations on the hours during which restaurants, bars and other retail outlets are allowed to sell beer.

A water supply shortage could adversely affect FEMSA Cerveza s business.

FEMSA Cerveza purchases water from Mexican government entities and obtains pump water from its own wells pursuant to concessions granted by the Mexican government.

FEMSA Cerveza believes that its water concessions will satisfy its current and future water requirements. We cannot assure, however, that isolated periods of adverse weather will not affect FEMSA Cerveza s supply of water to meet its future production needs in any given period, or that its concessions will not be terminated or will be renewed by the Mexican government. Any of these events or actions may adversely affect FEMSA Cerveza s business, financial condition and results of operations.

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FEMSA Comercio

Competition from other retailers in Mexico could adversely affect our company s business.

The Mexican retail sector is highly competitive. FEMSA participates in the retail sector primarily through FEMSA Comercio. FEMSA Comercio s Oxxo convenience stores face competition on a regional basis from 7-Eleven, Super Extra, AM/PM and Circle K stores. In particular, the Super Extra chain is owned and managed by Grupo Modelo, our main competitor in the Mexican beer market, and in 2003 the Super Extra chain launched an aggressive expansion in the number of its stores. Oxxo convenience stores also face competition from numerous small chains of retailers across Mexico. We cannot assure that FEMSA Comercio will not be affected by an increase in competition.

Sales of Oxxo convenience stores may be adversely affected by changes in economic conditions in Mexico.

Convenience stores often sell certain products at a premium. The convenience store market is thus highly sensitive to economic conditions, since an economic slowdown is often accompanied by a decline in consumer purchasing power, which in turn results in a decline in the overall consumption of our main product categories. During periods of economic slowdown, Oxxo stores may experience a decline in traffic per store and purchases per customer, and this may result in a decline in operating revenue.

FEMSA Empaques

FEMSA Empaques beverage can operation may be adversely affected by changes in economic conditions and competition from alternative beverage presentations.

The aluminum can operations of Fábricas Monterrey, S.A. de C.V., a subsidiary of FEMSA Empaques, are sensitive to economic conditions because beverage cans are more expensive to the consumer than alternative forms of packaging. FEMSA Empaques beverage can business exclusively serves the beverage industry and therefore is vulnerable to shifts in demand for beverage products. Furthermore, beverage cans also compete with alternative forms of packaging such as glass and plastic. Demand for canned beverages has decreased in recent years due to a shift toward plastic packaging in the soft drink industry. A decrease in demand may adversely affect FEMSA Empaques business, financial condition and results of operations.

The Mexican beverage can industry may have excess capacity, which may result in decreases in prices and adversely impact our business.

Certain of FEMSA Empaques significant competitors in the beverage can industry operate at average levels of capacity utilization below 60%. We cannot assure that some of these businesses will not practice aggressive pricing strategies in order to increase their sales volumes, which may have an adverse impact on our business.

FEMSA Empaques sales of glass bottles may be adversely affected by competition and from alternative beverage presentations.

FEMSA Empaques principal domestic competitor in the sale of glass bottles is Vitro, S.A. de C.V., or Vitro. We cannot assure that FEMSA Empaques will not be affected by price competition from Vitro or other producers of glass bottles or alternative containers.

Moreover, like the beverage can business, FEMSA Empaques glass bottle business exclusively serves the beverage industry and, thus, is vulnerable to shifts in preferences for those products and forms of packaging. Demand for glass bottles has declined in recent years due to a shift towards non-returnable plastic bottles for soft drinks. We cannot assure that there will not be a further shift in demand towards such alternative forms of packaging, which would have an effect on our glass bottle operations.

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FEMSA Empaques operating expenses may be adversely affected by changes in commodity prices and exchange rate fluctuations.

A significant portion of FEMSA Empaques raw materials consist of commodities, the prices of which are subject to volatility in accordance with international market conditions. In addition, FEMSA Empaques operating expenses are denominated in Mexican pesos while its revenues are linked to the U.S. dollar. As a result, the operating margins of FEMSA Empaques may be adversely affected as a result of increases in commodity prices or an appreciation in the Mexican peso against the U.S. dollar.

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic division. For the year ended December 31, 2003, 84.2% of our total sales were attributable to Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our company. We cannot assume that such conditions will not return or that such conditions will not have a material adverse effect on our results of operations and financial condition.

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

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

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

Political events in Mexico could adversely affect our operations.

Political events in Mexico may significantly affect our operations. In the Mexican federal elections held on July 2, 2000, Vicente Fox of the National Action Party (*Partido Acción Nacional*), or PAN, won the presidency. Although his victory ended more than 70 years of presidential rule by the Institutional Revolutionary Party (*Partido Revolucionario Institucional*), or PRI, neither the PRI nor the PAN succeeded in securing a majority in the Mexican congress. In elections in 2003 and 2004, the PAN lost additional seats in the Mexican congress and state governorships. The resulting legislative gridlock has impeded the progress of reforms in Mexico, which may adversely affect economic conditions in Mexico, and consequently, our results of operations.

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

In addition to Mexico, our subsidiary Coca-Cola FEMSA conducts operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. These countries expose us to different or greater country risk than Mexico. For many of these countries, results of operations in recent years have been adversely affected by deteriorating macroeconomic and political conditions. In Argentina and Venezuela, significant economic and political instability, including a contracting economy, a drastic currency devaluation, high unemployment, the introduction of exchange controls and social unrest have resulted in higher production costs and declining profitability for Coca-Cola FEMSA. In Colombia, Coca-Cola FEMSA has experienced problems with production and distribution as a result of political instability.

Coca-Cola FEMSA s future results may be significantly affected by the general economic and financial conditions in the countries where it operates, by the devaluation of the local currency, inflation and high interest rates, or by political developments or changes in law. Devaluation of the local currency against the U.S. dollar may increase our operating costs in that country, and a depreciation against the Mexican peso may negatively affect the results of operations for that country as reported in our Mexican GAAP financial statements. In addition, some of these countries may impose exchange controls that could impact Coca-Cola FEMSA s ability to purchase raw materials in foreign currencies and the ability of the subsidiaries in these countries to remit dividends abroad or make payments other than in local currencies, as is currently the case in Venezuela under regulations imposed in January 2003. As a result of these potential risks, Coca-Cola FEMSA may experience lower demand, lower real pricing, or increases in costs, which may negatively impact its results of operations.

Risks Related to the BD Units and the ADSs

Beneficial owners of ADSs who were not beneficial owners of ADSs as of the record date, or who do not comply with all of the procedures and conditions relating to the share allocation program in a timely manner, will not be eligible to purchase ADSs in the share allocation program.

A beneficial owner of ADSs will not be eligible to participate in the share allocation program unless that person was a beneficial owner of ADSs as of the record date and complies on a timely basis with all of the procedures and conditions summarized in this prospectus under Share Allocation Programs Share Allocation Program in International Offering. These procedures require, among others, the ability to access a specific website, timely completion and submission of an eligibility/expression of interest form and confirmation of purchase on the evening of the pricing date. The conditions include, among others, the consent to the electronic delivery of documents relating to the share allocation program in the international offering. Beneficial owners of BD Units other than in the form of ADSs may not participate in the international offering, but may, if they are eligible and comply with the applicable procedures and conditions, participate in the share allocation program in the concurrent Mexican BD Unit offering. For information on the procedures for purchasing BD Units in the share allocation program in the concurrent Mexican BD Unit offering, see Share Allocation Programs Share Allocation Program in Concurrent Mexican BD Unit Offering. Beneficial owners of ADSs and BD Units who fail or are unable to comply with the applicable procedures and conditions in a timely manner will not be eligible to receive an allocation of ADSs or BD Units, as applicable, under the relevant share allocation program.

This prospectus and instructions for contacting Morgan Stanley & Co. Incorporated in order to participate in the share allocation program in the international offering will be distributed following the identification of the beneficial owners of ADSs as of the record date. However, because none of our company, the ADS depositary and the registered holders of the ADSs is responsible for maintaining a current list of beneficial owners, some beneficial owners may not receive this prospectus with sufficient time if at all for them to participate in the share allocation program, even if they were beneficial owners of ADSs as of the record date. Neither we nor the underwriters will be responsible for any failure to identify all beneficial owners of ADSs nor for the timely delivery of this prospectus to any such beneficial owner.

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Upon the completion of the global offering and the Mexican B Unit offerings, you may own a smaller proportionate interest in our capital stock.

Pursuant to Article 81 of the Mexican Securities Market Law and as approved by our shareholders, the BD Units sold in the international offering in the form of ADSs and in the concurrent Mexican BD Unit offering will not entitle holders of BD Units or ADSs at the time of the offering to preemptive rights. Beneficial owners of BD Units, including BD Units in the form of ADSs, will be eligible, subject to compliance with the applicable procedures and conditions, to participate in the share allocation programs in the global offering under which up to 50% of the BD Units, including BD units in the form of ADSs, will be allocated to beneficial owners of outstanding ADSs and BD Units as of the record date. In addition, assuming the underwriters in the global offering do not exercise their over-allotment options, a disproportionate number of B Units will be issued in the Mexican B Unit offerings, and the outstanding B Units will increase from 39.6% to % of our outstanding capital stock after giving effect to the global offering and the Mexican B Unit offerings. As a result, upon completion of the offering, you may own a smaller proportionate interest in our company s capital stock.

A majority of our voting shares are held by a voting trust, which effectively controls the management of our company, and whose interests may differ from those of other shareholders.

As of September 15, 2004, a voting trust, the participants of which are members of five families, owned 36.4% of our capital stock and 70.4% of our capital stock with full voting rights, consisting of the Series B Shares. See Major Shareholders. After giving effect to the global offering and the Mexican B Unit offerings, assuming the underwriters do not exercise their over-allotment options, the ownership of the voting trust will increase to % of our capital stock and % of our capital stock with full voting rights. Assuming the underwriters exercise their over-allotment options in full, the ownership of the voting trust will be % of our capital stock and % of our capital stock with full voting rights. Consequently, the voting trust has, and will continue to have after the global offering, the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our shareholders. The interests of the voting trust may differ from those of our other shareholders.

Holders of Series D-B and D-L Shares have limited voting rights.

Holders of Series D-B and D-L Shares have limited voting rights and are only entitled to vote on specific matters, such as changes in our corporate form, a dissolution or liquidation and the cancellation of the registration of the Series D-B and D-L Shares. As a result, these holders will not be able to influence our business or operations. See Description of Our Capital Stock.

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

Our shares are traded on the New York Stock Exchange in the form of ADSs. We cannot assure that holders of our shares through ADSs will receive notice of shareholders meetings from our ADS depositary in sufficient time to enable such holders to return voting instructions to the ADS depositary in a timely manner. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depositary will, subject to certain limitations, grant a proxy to a person designated by us in respect of these shares. In the event that this proxy is not granted, the ADS depositary will vote these shares in the same manner as the majority of the shares of each class for which voting instructions are received. See Description of Our ADSs.

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

Under applicable Mexican law, if we issue new shares for cash as a part of a capital increase, we are generally required to grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. No right is applicable to offerings conducted under Article 81 of the Mexican Securities Market Law, pursuant to which we are conducting the global offering and the Mexican B Unit

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offering. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our shares or ADSs who are located in the United States to exercise any preemptive rights in any future capital increases unless (1) we file a registration statement with the SEC with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

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

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

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

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

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

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

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

The failure or inability of our subsidiaries to pay dividends or other distributions to us may adversely affect us and our ability to pay dividends to holders of ADS.

FEMSA is a holding company whose cash flows are principally derived from dividends, interest and other distributions made to FEMSA by subsidiaries. Currently, FEMSA s subsidiaries do not have contractual obligations that require them to pay dividends to FEMSA. However, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries ability to make dividend or other payments to FEMSA, which in turn may adversely affect FEMSA s ability to pay dividends to shareholders and meet its obligations.

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FORWARD-LOOKING STATEMENTS

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

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MARKET PRICES

The following tables set forth, for the periods indicated, the reported high, low and closing sale prices and the average daily trading volumes for the BD Units and B Units on the Mexican Stock Exchange and the reported high, low and closing sale prices and the average daily trading volumes for the ADSs on the New York Stock Exchange.

	BD Units[(1)]				
	Nominal Pesos				Average Daily Trading Volume
	High[(2)]	Low[(2)]	Close[(3)]	US$[(4)] Close	(Units)
1999	42.30	19.42	42.30	4.46	1,791,831
2000	49.35	25.25	28.60	2.97	1,310,216
2001	41.00	25.20	31.02	3.39	1,132,468
2002					
First Quarter	42.45	31.89	41.95	4.66	1,332,724
Second Quarter	46.00	37.02	39.05	3.91	1,001,819
Third Quarter	41.22	33.98	34.56	3.38	755,405
Fourth Quarter	39.40	35.22	37.93	3.64	733,989
2003					
First Quarter	38.34	33.50	35.86	3.33	604,877
Second Quarter	44.68	35.25	43.01	4.11	719,752
Third Quarter	43.56	39.52	41.87	3.81	1,195,971
Fourth Quarter	42.60	38.49	41.48	3.69	1,500,219
2004					
April	56.70	49.70	49.70	4.36	1,094,090
May	52.46	48.18	48.80	4.28	1,820,433
June	53.10	48.90	52.72	4.57	970,845
July	52.76	49.02	50.09	4.39	818,532
August	50.83	47.26	49.24	4.33	565,127
September	52.33	49.79	50.30	4.42	782,957
October[(5)]	51.14	49.90	49.90	4.36	1,079,846

(1) The prices and average daily trading volume for the BD Units were taken from Bloomberg.
(2) High and low closing prices for the periods presented.
(3) Closing price on the last day of the periods presented.
(4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the BD Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the Federal Reserve Bank of New York on such date.
(5) Through October 19, 2004.

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	B Units[1]				
	Nominal Pesos				Average Daily Trading Volume
	High[2]	Low[2]	Close[3]	US$[4] Close	(Units)
1999	37.00	27.50	37.00	3.90	256,624
2000	45.00	31.30	45.00	4.68	81,836
2001	45.00	27.92	36.10	3.94	15,967
2002					
First Quarter	39.00	34.00	39.00	4.33	2,849
Second Quarter	40.00	39.00	39.44	3.95	327
Third Quarter	39.44	38.00	38.00	3.72	32
Fourth Quarter	37.50	34.60	37.00	3.55	389
2003					
First Quarter	36.70	33.70	36.30	3.37	426
Second Quarter	40.90	37.00	40.90	3.91	61
Third Quarter	40.90	39.00	39.00	3.54	2,223
Fourth Quarter	40.00	34.00	38.70	3.44	7,231
2004					
April	48.50	48.00	48.00	4.21	1,125
May	48.40	46.00	48.40	4.24	1,837
June	48.40	48.40	48.40	4.19	200
July	48.39	47.69	47.69	4.18	800
August	47.70	47.70	47.70	4.19	51,350
September	49.00	47.00	49.00	4.30	32,300
October[5]	49.00	47.50	49.00	4.28	23,400

(1) The prices and average daily trading volume for the B Units were taken from Bloomberg.
(2) High and low closing prices for the periods presented.
(3) Closing price on the last day of the periods presented.
(4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the B Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the Federal Reserve Bank of New York on such date.
(5) Through October 19, 2004.

	ADSs[1]			
	U.S. dollars			Average Daily Trading Volume
	High[2]	Low[2]	Close[3]	(ADSs)
1999	44.63	18.56	44.50	203,850
2000	53.19	26.63	29.88	221,984
2001	45.00	26.80	34.55	231,109
2002				
First Quarter	47.15	35.00	47.15	244,122
Second Quarter	49.21	37.15	39.22	243,161
Third Quarter	42.16	33.80	33.80	248,427
Fourth Quarter	39.49	34.63	36.42	181,302
2003				
First Quarter	36.50	30.65	33.27	209,310
Second Quarter	42.11	32.82	41.20	195,548
Third Quarter	41.26	36.60	38.15	260,361

Fourth Quarter	38.68	34.15	36.88	332,581
2004				
April	50.70	43.72	43.72	251,095
May	45.30	41.52	42.94	407,650
June	46.92	42.65	45.84	288,973
July	46.03	42.71	43.94	262,219
August	44.46	41.40	43.23	191,445
September	45.32	43.30	44.18	174,048
October(4)	45.43	43.75	43.75	236,962

(1) Each ADS is comprised of 10 BD Units. Prices and average daily trading volume were taken from Bloomberg.

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

(3) Closing price on the last day of the periods presented.

(4) Through October 19, 2004.

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DIVIDENDS AND DIVIDEND POLICY

We intend to pay aggregate dividends equal to approximately 15% to 30% of our net income, subject to changes in our results of operating and financing position including due to extraordinary economic events and to the factors described in Risk Factors that affect our financial situation and liquidity. These factors may affect whether or not dividends are declared and the amount of such dividends. We do not expect to be subject to any contractual restrictions on our ability to pay dividends, although our subsidiaries may be subject to such restrictions. However, the bridge loans incurred in connection with our acquisition of the 30% interest in FEMSA Cerveza previously held by affiliates of Interbrew, which we expect to repay with the proceeds of the global offering and the Mexican B Unit offerings, restrict the payment of dividends in excess of US$ 60 million prior to their maturity date. Because we are a holding company with no significant operations of our own, we will have distributable profits and cash to pay dividends only to the extent that we receive dividends from our subsidiaries. Accordingly, we cannot assure you that we will pay dividends or as to the amount of any dividends.

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican pesos and the U.S. dollar equivalent amounts that were actually paid on each of the respective payment dates for the period 2000 to 2004:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared (Nominal Pesos)[1]	Per Series B Share Dividend (Nominal Pesos)	Per Series B Share Dividend (US$)[2]	Per Series D Share Dividend (Nominal Pesos)	Per Series D Share Dividend (US$)[2]
July 31, 2000	1999	Ps. 503,163,279	Ps. 0.0840	$ 0.0090	Ps. 0.105000	$ 0.0112
May 21, 2001	2000	Ps. 435,790,703	Ps. 0.0734	$ 0.0082	Ps. 0.091700	$ 0.0103
May 31, 2002	2001	Ps. 664,966,740	Ps. 0.1120	$ 0.0116	Ps. 0.140000	$ 0.0145
May 30, 2003	2002	Ps. 397,792,604	Ps. 0.0670	$ 0.0065	Ps. 0.083750	$ 0.0081
May 31, 2004	2003	Ps. 531,379,672	Ps. 0.0895	$ 0.0078	Ps. 0.111875	$ 0.0098

(1) The aggregate amount of dividend declared is determined by the per series dividend amount multiplied by the number of shares outstanding at the date the dividend is declared:

Date Dividend Paid	Outstanding Shares	
	Series B	Series D
July 31, 2000	2,746,546,090	2,594,794,360
May 21, 2001	2,737,740,090	2,559,570,360
May 31, 2002	2,737,740,090	2,559,570,360
May 30, 2003	2,737,740,090	2,559,570,360
May 31, 2004	2,737,740,090	2,559,570,360

(2) Translated to U.S. dollars at the corresponding noon buying rate of the Federal Reserve Bank of New York.

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

Our bylaws provide that, before May 11, 2008, dividends will be allocated among the shares outstanding and fully paid at the time a dividend is declared in such manner that each Series D-B Share and Series D-L Share

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receives 125% of the dividend distributed in respect of each Series B Share. Holders of Series D-B Shares and Series D-L Shares are entitled to this dividend premium in connection with all dividends paid by us other than payments in connection with the liquidation of our company. On May 11, 2008, the Series D-B Shares will automatically convert into Series B Shares and the Series D-L Shares will automatically convert into Series L Shares, which will not be entitled to a dividend premium. From and after May 11, 2008, the Series L Shares and Series B Shares that are outstanding and fully paid at the time a dividend is declared will be entitled to share equally in the dividend.

Subject to certain exceptions contained in the deposit agreement dated February 11, 2004, among FEMSA, The Bank of New York, as ADS depositary, and holders and beneficial owners from time to time of our ADSs evidenced by American Depositary Receipts, any dividends distributed to holders of our ADSs will be paid to the ADS depositary in Mexican pesos and will be converted by the ADS depositary into U.S. dollars. As a result, exchange rate fluctuations may affect the U.S. dollar amount actually received by holders of our ADSs. Although the Mexican government does not currently restrict the ability of Mexican and foreign persons or entities to convert Mexican pesos to U.S. dollars or other currencies or to transfer other currencies out of Mexico, we cannot give you any assurance that the Mexican government will not institute a restrictive exchange control policy in the future. Any restrictive exchange control policy could affect the ADS depositary s ability to convert dividends received in Mexican pesos into U.S. dollars for purposes of making a distribution to holders of the ADSs.

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USE OF PROCEEDS

Our net proceeds from the global offering will be approximately US$ 290.4 million, or approximately US$ 334.4 million if the underwriters exercise their over-allotment options in full, and our net proceeds from the Mexican B Unit offerings (described below) will be approximately US$ 230 million. We will use the aggregate net proceeds from the global offering and the Mexican B Unit offerings to repay indebtedness in respect of bridge loans incurred in connection with our acquisition of the equity interest of approximately 30% in FEMSA Cerveza previously held by affiliates of Interbrew. See Operating and Financial Review and Prospects Recent Developments Interbrew Transactions and Financing for Interbrew Transactions. Remaining amounts will be used for general corporate purposes.

We entered into two bridge loan agreements on August 12, 2004 under which we made borrowings on August 20, 2004. The U.S. dollar-denominated bridge loan has a principal amount of US$ 250 million and bears interest at a rate equal to the London interbank offered rate, or LIBOR, plus a 0.25% margin. The initial lender under the U.S. dollar-denominated bridge loan is Morgan Stanley Senior Funding, Inc., which is an affiliate of one of the underwriters in the international offering. The Mexican peso-denominated bridge loan has a principal amount of Ps. 2.8775 billion, which is equal to the Mexican peso equivalent of US$ 250 million on the borrowing date, and bears interest at a rate equal to the *Tasa de Interés Interbancaria de Equilibrio* (TIIE), plus a 0.15% margin. The initial lender under the Mexican peso-dominated bridge loan is Banco Nacional de México, S.A., Institución de Banco Múltiple, Integrante del Grupo Financiero Banamex, which is an affiliate of one of the underwriters in the international offering. The interest rate for each loan increases periodically beginning 90 days from the date of borrowing. Both loans mature on August 20, 2005.

Mexican B Unit Offerings

Concurrently with the global offering, we are offering B Units in a Mexican public offering and an offering to the voting trust and other holders of B Units. Each B Unit represents five of our Series B Shares. Our bylaws require the Series B Shares to represent at least 51% of the outstanding shares of our capital stock. The number of B Units to be sold in the Mexican B Unit offerings will be calculated to maintain the approximate percentage of the Series B Shares as a percentage of our outstanding capital stock, assuming the exercise in full of the underwriters overallotment options, after giving effect to the global offering and the Mexican B Unit offerings. The B Units will be sold at the equivalent of the public offering price per BD Unit in the concurrent Mexican BD Unit offering. The Mexican B Unit offerings are not underwritten, and the underwriters in the global offering are not acting as underwriters in the Mexican B Unit offerings; however, Casa de Bolsa BBVA Bancomer, S.A. de C.V., Grupo Financiero BBVA Bancomer, or Bancomer, one of the underwriters in the concurrent Mexican BD Unit offering, is acting as placement agent for the Mexican B Unit directed offering and Bancomer and Acciones y Valores de México, S.A. de C.V., Casa de Bolsa, Integrante del Grupo Financiero Banamex, are participating in placing B Units in the Mexican B Unit public offering.

A voting trust, the participants which are members of five families, several of whom are members of our board of directors, owns 91.8% of our B Units as of September 15, 2004 and is expected to acquire substantially all of the B Units in the Mexican B Unit offerings. Because of its ownership of a majority of the Series B Shares with full voting rights, the voting trust may be deemed to control our company. See Major Shareholders.

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CAPITALIZATION

The following table sets forth our consolidated capitalization under Mexican GAAP as of June 30, 2004 (1) on an actual basis, (2) on an adjusted basis to reflect the Interbrew transactions and the related debt financings and (3) on a further adjusted basis to reflect the sale of BD Units in the form of ADSs and BD Units in the global offering with an estimated aggregate sale price of US$ 290.4 million, net of underwriting discounts and commissions, and the sale of B Units in the Mexican B Unit offerings with an estimated aggregate sale price of US$ 230 million.

	As Reported		As Adjusted for Interbrew Transactions		As Adjusted for Offerings	
	(in millions of U.S. dollars and in millions of Mexican pesos at June 30, 2004 [1])					
Short-term debt:						
Secured	Ps. 495	$ 43	Ps. 495	$ 43	Ps. 495	$ 43
Unsecured	1,575	137	7,331	637	1,575	137
	2,070	180	7,826	680	2,070	$ 180
Current maturities of long-term debt	2,620	228	2,620	228	2,620	228
Long-term debt[2]	31,774	2,760	36,957	3,210	36,957	3,210
Total debt[3]	Ps. 36,464	$ 3,168	Ps. 47,403	$ 4,118	Ps. 41,647	$ 3,618
Stockholders equity:						
Minority interest in consolidated subsidiaries	20,176	1,752	14,596	1,268	14,596	1,268
Majority interest:						
Capital stock and additional paid-in capital	16,569	1,439	16,569	1,439	22,215	1,930
Cumulative comprehensive income	14,410	1,252	14,410	1,252	14,410	1,252
Total majority interest	30,979	2,691	30,979	2,691	36,625	3,182
Total stockholders equity	51,155	4,443	45,575	3,959	51,221	4,450
Total capitalization[4]	Ps. 87,619	$ 7,611	Ps. 92,978	$ 8,077	Ps. 92,868	$ 8,068

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 11.5123 to US$ 1.00 solely for the convenience of the reader.
(2) None of our long term debt is secured.
(3) None of our indebtedness is guaranteed by any person other than a consolidated affiliate, and we and our consolidated affiliates do not guarantee any indebtedness of any such person.
(4) Represents total debt plus total stockholders equity.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements and the notes thereto included in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus, and our unaudited consolidated financial statements and notes thereto included in this prospectus. The selected financial information is presented on a consolidated basis and is not necessarily indicative of our financial position or results of operations at or for any future date or period.

Information as of and for the five years ended December 31, 2003 has been derived from our audited consolidated financial statements, and information as of and for the six months ended June 30, 2003 and June 30, 2004 has been derived from our unaudited consolidated financial statements.

	Year Ended December 31,					
	2003(1)	2003	2002	2001	2000	1999
	(in millions of U.S. dollars and constant Mexican pesos at December 31, 2003, except for per share data and the weighted average number of shares outstanding)					
Income Statement Data						
Mexican GAAP:						
Total revenues	$ 6,592	Ps. 75,891	Ps.55,395	Ps.52,465	Ps.50,151	Ps.45,463
Income from operations	1,050	12,084	9,791	8,868	7,957	7,173
Taxes(2)	293	3,378	3,764	3,069	2,615	2,253
Change in accounting principle				(30)		
Net income	405	4,657	4,791	5,215	3,995	4,734
Net majority income	269	3,093	2,947	3,547	2,865	3,587
Net minority income	136	1,564	1,844	1,668	1,130	1,147
Net majority income:(3)						
Per Series B Share	0.05	0.52	0.50	0.60	0.48	0.60
Per Series D Share	0.06	0.65	0.62	0.75	0.60	0.75
Weighted average number of shares outstanding (millions):						
Series B Shares	2,737.7	2,737.7	2,737.7	2,737.8	2,745.8	2,746.5
Series D Shares	2,559.6	2,559.6	2,559.6	2,559.8	2,591.8	2,594.8
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	45.85%	45.85%
Series D Shares	53.89%	53.89%	53.89%	53.89%	54.15%	54.15%
U.S. GAAP:						
Total revenues	$ 6,592	Ps. 75,891	Ps.55,048	Ps.54,815	Ps.52,154	Ps.48,296
Income from operations	1,011	11,642	8,723	8,133	7,009	6,644
Change in accounting principle				(54)		21
Net minority income	140	1,608	1,876	1,645	1,200	1,145
Net income	284	3,271	3,206	3,305	2,673	2,306
Net income:(3)						
Per Series B Share	0.05	0.55	0.54	0.56	0.45	0.38
Per Series D Share	0.06	0.69	0.67	0.70	0.56	0.48
Balance Sheet Data						
Mexican GAAP:						
Total assets	$ 9,063	Ps.104,334	Ps.62,660	Ps.53,320	Ps.50,111	Ps.48,781
Current liabilities	1,452	16,716	12,314	8,954	8,759	8,834

Long-term debt[(4)]	2,896	33,345	10,192	7,399	8,005	8,343
Other long-term liabilities	710	8,175	5,856	5,568	5,592	978
Capital stock	369	4,243	4,243	4,243	4,249	4,271
Total stockholders equity	4,004	46,098	34,298	31,399	27,755	30,626
Majority interest	2,467	28,400	24,024	22,127	19,509	21,813
Minority interest	1,537	17,698	10,274	9,272	8,246	8,813

(Footnotes on next page)

	Year Ended December 31,					
	2003(1)	2003	2002	2001	2000	1999
	(in millions of U.S. dollars and constant Mexican pesos at December 31, 2003, except for per share data and the weighted average number of shares outstanding)					
U.S. GAAP:						
Total assets	$ 10,380	Ps.119,496	Ps.78,688	Ps.70,212	Ps.69,482	Ps.67,964
Current liabilities	1,670	19,220	14,142	10,964	11,006	11,188
Long-term debt(4)	3,054	35,160	11,308	8,507	8,029	8,350
Other long-term liabilities	503	5,789	5,019	5,015	6,543	6,632
Minority interest	1,495	17,215	9,986	9,129	8,670	7,934
Capital stock	369	4,243	4,243	4,243	4,249	4,271
Stockholders equity	3,658	42,112	38,233	36,597	35,234	33,860
Other Information						
Mexican GAAP:						
Depreciation(5)	$ 272	Ps. 3,126	Ps. 2,523	Ps. 2,406	Ps. 2,534	Ps. 2,316
Capital expenditures(6)	590	6,789	5,780	5,531	4,764	4,536
Operating margin(7)	15.9%	15.9%	17.7%	16.9%	15.9%	15.8%
U.S. GAAP:						
Depreciation(5)	$ 278	Ps. 3,199	Ps. 2,400	Ps. 2,393	Ps. 2,450	Ps. 2,227
Operating margin(7)	15.3%	15.3%	15.8%	14.8%	13.4%	13.8%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 11.5123 to US$ 1.00 solely for the convenience of the reader.
(2) Includes income tax, tax on assets and employee profit sharing.
(3) The net income (after changes in accounting principles) per Series B Share and per Series D Share was calculated in accordance with Bulletin B-14 of Mexican GAAP, which is similar to SFAS No. 128 of U.S. GAAP. The following table presents the calculations of the weighted average number of shares and income per share allocation:

	Series B Shares		Series D Shares	
	Number of Shares	Weighted Average	Number of Shares	Weighted Average
	(in millions of shares)			
At December 31, 1999	2,746.546	2,746.546	2,594.794	2,594.794
Allocation of earnings		45.85%		54.15%
Repurchase of our shares in 2000 from October 29, 2000 to December 29, 2000	6.750	0.736	27.000	2.945
At December 31, 2000	2,739.796	2,745.810	2,567.794	2,591.849
Allocation of earnings		45.85%		54.15%
Repurchase of our shares in 2001 from January 4, 2001 to January 16, 2001	2.056	2.005	8.224	8.019
At December 31, 2001	2,737.740	2,737.791	2,559.570	2,559.776
Allocation of earnings		46.11%		53.89%
At December 31, 2002 and 2003	2,737.740	2,737.740	2,559.570	2,559.570
Allocation of earnings		46.11%		53.89%

(4) Includes long-term debt minus the current portion of long-term debt.
(5) Includes bottle breakage for Coca-Cola FEMSA.
(6) Includes investments in property, plant and equipment and deferred charges.
(7) Operating margin is calculated by dividing income from operations by total revenues.

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	Six Months Ended June 30,		
	2004[(1)]	2004	2003
	(in millions of U.S. dollars and constant Mexican pesos at June 30, 2004, except per share data)		
Income Statement Data			
Mexican GAAP:			
Total revenues	$ 3,798	Ps. 43,712	Ps. 33,439
Income from operations	541	6,208	5,298
Taxes(2)	168	1,920	1,329
Extraordinary items	102	1,175	
Net income	359	4,130	1,827
Net majority income	211	2,434	1,217
Net minority income	148	1,696	610
Net majority income:(3)			
Per Series B Share:			
Before extraordinary items	0.03	0.32	0.21
Extraordinary items	0.01	0.09	
Per Series D Share:			
Before extraordinary items	0.04	0.40	0.26
Extraordinary items	0.01	0.11	
U.S. GAAP:			
Total revenues	$ 3,797	Ps. 43,712	Ps. 33,109
Income from operations	503	5,785	4,593
Extraordinary items	102	1,175	
Net minority income	150	1,727	562
Net income	219	2,520	1,349
Net majority income:(3)			
Per Series B Share:			
Before extraordinary items	0.03	0.33	0.23
Extraordinary items	0.01	0.09	
Per Series D Share:			
Before extraordinary items	0.04	0.41	0.28
Extraordinary items	0.01	0.11	
Balance Sheet Data			
Mexican GAAP:			
Total assets	$ 9,316	Ps.107,246	Ps.105,107
Current liabilities	1,433	16,491	19,426
Long-term debt(4)	2,760	31,774	34,248
Other long-term liabilities	680	7,826	7,995
Minority interest in consolidated subsidiaries	1,752	20,176	16,601
Capital stock	375	4,312	4,312
Majority interest	2,691	30,979	26,837
Total stockholders equity	4,443	51,155	43,438
U.S. GAAP:			
Total assets	$ 10,755	Ps.123,816	Ps.120,541
Current liabilities	1,605	18,475	20,950
Long-term debt(4)	2,890	33,271	34,248
Other long-term liabilities	639	7,362	8,417
Minority interest	1,721	19,809	16,365
Capital stock	375	4,312	4,312
Stockholders equity	3,900	44,899	40,561
Other Information			
Mexican GAAP:			
Depreciation(5)	$ 154	Ps. 1,768	Ps. 1,373
Capital expenditures(6)	251	2,884	3,129
Operating margin(7)	14.2%	14.2%	15.8%
U.S. GAAP:			
Depreciation(5)	$ 155	Ps. 1,783	Ps. 1,345
Operating margin(7)	13.2%	13.2%	13.9%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 11.5123 to US$ 1.00 solely for the convenience of the reader.
(2) Includes income tax, tax on assets and employee profit sharing.
(3) Income per share calculations are based on the weighted average number of shares and income per share allocation, as follows:

	Weighted average number of shares	Allocation of earnings
Millions of:		
Series B shares	2,737.740	46.11%
Series D shares	2,559.570	53.89%

(4) Includes long-term debt minus the current portion of long-term debt.
(5) Includes bottle breakage for Coca-Cola FEMSA.
(6) Includes investments in property, plant and equipment and deferred charges.
(7) Operating margin is calculated by dividing income from operations by total revenue.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

We prepared the following unaudited pro forma consolidated income statements for the year ended December 31, 2003 and for the six months ended June 30, 2004 and unaudited pro forma condensed consolidated balance sheet as of June 30, 2004 to illustrate the estimated effects on our results of operations and financial condition of the acquisitions of:

- 100% of Panamco on May 6, 2003; and

- 30% of our subsidiary FEMSA Cerveza from affiliates of Interbrew on August 31, 2004, including the assignment of the rights to FEMSA Cerveza s beer brands in the United States to Wisdom Import Sales Co. LLC, a wholly owned subsidiary of FEMSA Cerveza, in consideration for the redemption of its 30% interest in Labatt USA and the related financing transactions, including the repayment of bridge loans with the net proceeds of the global offering and the Mexican B Unit offerings.

The unaudited pro forma income statements give effect to these transactions as if they had occurred on January 1, 2003, and the unaudited pro forma condensed balance sheet as if they had occurred on June 30, 2004.

The unaudited pro forma condensed consolidated financial information was prepared in accordance with Mexican GAAP. A reconciliation of unaudited pro forma majority net income and unaudited pro forma stockholders equity to U.S. GAAP is provided in Note 4 below.

The unaudited pro forma condensed consolidated financial information does not purport to indicate the results of operations and financial position that would actually have occurred had the transactions occurred on the dates indicated or which may be expected to be achieved in the future.

The following unaudited pro forma condensed consolidated financial information should be read in conjunction with Operating and Financial Review and Prospects, as well as with Notes 25 and 26 to our audited consolidated financial statements as of and for the year ended December 31, 2003 contained in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus, and Notes 27 and 28 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2004 included in this prospectus.

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Unaudited Pro Forma Consolidated Income Statement

Year Ended December 31, 2003

	FEMSA As Reported	Panamco Income Statement from January to April 2003	Panamco Pro forma Adjustments	Termination of FEMSA-Interbrew Joint Venture	Equity Offering	Pro forma
	(in millions of Mexican pesos as of December 31, 2003, except per share data)					
Net sales	Ps. 75,597	Ps. 8,224	Ps.	Ps.	Ps.	Ps. 83,821
Other operating revenues	294	53				347
Total revenues	75,891	8,277				84,168
Cost of sales	39,371	4,499	(23)(a)			43,847
Gross profit	36,520	3,778	23			40,321
Operating expenses:						
Administrative	5,740	609	(5)(a)			6,344
Sales	18,696	2,192	(52)(a)			20,836
	24,436	2,801	(57)			27,180
Income from operations	12,084	977	80			13,141
Participation in affiliated companies	30			(30)(e)		
	12,114	977	80	(30)		13,141
Integral result of financing:						
Interest expense	(2,540)	(310)	(425)(b1)	(370)(f1)		(3,645)
Interest income	695	53	(35)(b2)	(217)(f2)		496
Foreign exchange gain (loss)	(2,532)	(239)	81(b3)			(2,960)
Gain on monetary position	954	289	240(b4)	348(f3)		1,831
	(3,423)	(207)	(139)	(239)		(4,008)
Other expenses, net	(656)	(100)	24(a)			(732)
Income before income tax, tax on assets and employee profit sharing	8,035	670	(35)	(269)		8,401
Income tax, tax on assets and employee profit sharing	3,378	279	(15)(c)	(81)(g)		3,561
Consolidated net income	4,657	391	(20)	(188)		4,840
Net majority income	3,093	388	(180)	120		3,381

Net minority income	1,564	3	200(d)	(308)(h)		1,459
Consolidated net income	Ps. 4,657	Ps. 391	Ps. (20)	Ps. (188)	Ps.	Ps. 4,840
Weighted average number of shares outstanding (in millions):						
Series B Shares	2,737.7				264.8	3,002.5
Series D Shares	2,559.6				310.8	2,870.4
Allocation of earnings:						
Series B Shares	46.11%					45.56%
Series D Shares	53.89%					54.44%
Net majority income: (in Mexican pesos)						
Per Series B Share	Ps. 0.52					Ps. 0.51
Per Series D Share	0.65					0.64

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

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Unaudited Pro Forma Consolidated Income Statement

Six Months Ended June 30, 2004

	FEMSA As Reported	Termination of FEMSA-Interbrew Joint Venture	Equity Offering	Pro forma
	(in millions of Mexican pesos as of June 30, 2004, except per share data)			
Net sales	Ps. 43,568	Ps.	Ps.	Ps. 43,568
Other operating revenues	144			144
Total revenues	43,712			43,712
Cost of sales	23,198			23,198
Gross profit	20,514			20,514
Operating expenses:				
Administrative	3,124			3,124
Sales	11,182			11,182
	14,306			14,306
Income from operations	6,208			6,208
Participation in affiliated companies	9	(9)(e)		
	6,217	(9)		6,208
Integral result of financing:				
Interest expense	(1,668)	(179)(f1)		(1,847)
Interest income	180	(76)(f2)		104
Foreign exchange loss	(167)			(167)
Gain on monetary position	544	142(f3)		686
	(1,111)	(113)		(1,224)
Other expenses, net	(231)			(231)
Income before income tax, tax on assets and employee profit sharing	4,875	(122)		4,753
Income tax, tax on assets and employee profit sharing	1,920	(37)(g)		1,883
Consolidated net income before extraordinary items	Ps. 2,955	Ps.(85)	Ps.	Ps. 2,870
Net majority income before extraordinary items	1,897	198		2,095
Net minority income before extraordinary items	1,058	(283)(h)		775
Consolidated net income before extraordinary items	Ps. 2,955	Ps.(85)	Ps.	Ps. 2,870

Weighted average number of shares outstanding (in millions):				
Series B Shares	2,737.7		264.8	3,002.5
Series D Shares	2,559.6		310.8	2,870.4
Allocation of earnings:				
Series B Shares	46.11%			45.56%
Series D Shares	53.89%			54.44%
Net majority income before extraordinary items: (in Mexican pesos)				
Per Series B Share	Ps. 0.32			Ps. 0.32
Per Series D Share	Ps. 0.40			Ps. 0.40

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

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Unaudited Pro Forma Condensed Consolidated Balance Sheet

As of June 30, 2004

	FEMSA As Reported	Termination of FEMSA-Interbrew Joint Venture	Equity Offering	Pro forma
	(in millions of Mexican pesos as of June 30, 2004)			
Assets				
Current assets:				
Cash and cash equivalents	Ps. 7,890	Ps. (9,380)(a)	Ps. 5,646	Ps. 4,156
Other current assets	13,465			13,465
Total current assets	21,355	(9,380)	5,646	17,621
Investments in shares	926	(160)(b)		766
Property, plant and equipment	42,887			42,887
Other assets	6,308			6,308
Intangible assets	35,582	9,143(c)		44,725
Goodwill	188			188
Total assets	Ps. 107,246	Ps. (397)	Ps. 5,646	Ps. 112,495
Liabilities and stockholders equity				
Total current liabilities	16,491			16,491
Long-term liabilities:				
Bank loans and notes payable	31,774	5,183(d)		36,957
Other long-term liabilities	7,826			7,826
Total long-term liabilities	39,600	5,183		44,783
Total liabilities	56,091	5,183		61,274
Stockholders equity:				
Minority interest in consolidated subsidiaries	20,176	(5,580)(e)		14,596
Majority interest	30,979		5,646	36,625
Total stockholders equity	51,155	(5,580)	5,646	51,221
Total liabilities and stockholders equity	Ps. 107,246	Ps. (397)	Ps. 5,646	Ps. 112,495

The accompanying notes are an integral part of this unaudited pro forma condensed consolidated balance sheet.

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Notes to the Unaudited Pro Forma Condensed Consolidated Financial Information

Note 1. Acquisition of Panamco

On May 6, 2003, Coca-Cola FEMSA acquired 100% of the outstanding stock of Panamco for Ps. 29,999 million. As part of the acquisition, our company assumed Ps. 9,233 million of net debt and incurred transaction costs of Ps. 394 million, which consist of financial, advisory and legal fees, capitalized as adjustments to the purchase price.

Panamco produced and distributed Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Venezuela, Colombia and Brazil, as well as bottled water and other beverages in some of these territories and beer in Brazil.

The transaction was financed with an equity contribution from FEMSA of Ps. 2,824 million, an exchange of The Coca-Cola Company s equity interests in Panamco valued at Ps. 7,158 million for new shares of Coca-Cola FEMSA, cash on hand of Ps. 2,866 million and additional indebtedness of Ps. 17,548 million.

Coca-Cola FEMSA s capital was increased by 421.374 million shares. Of these shares, 117.328 million shares were subscribed by FEMSA and 304.046 million shares were subscribed by The Coca-Cola Company at US$ 2.216 per share. Because The Coca-Cola Company s contribution to Coca-Cola FEMSA was greater than FEMSA s contribution, FEMSA s ownership in Coca-Cola FEMSA decreased from 51.0% to 45.7% of its outstanding capital stock and from 63.0% to 53.6% of its capital stock with full voting rights.

The exchange of equity interests of The Coca-Cola Company generated additional paid-in capital in majority stockholders equity, since the shares were subscribed at a value greater than the book value of the shares at the subscription date.

The results of Panamco s operations for the period from May 1, 2003 to December 31, 2003 have been included in the consolidated financial statements of Coca-Cola FEMSA and subsidiaries for the year ended December 31, 2003.

Our company accounted for the acquisition by the purchase method and allocated the purchase price to the fair value of the assets acquired and the liabilities assumed. The fair value adjustments include recognition of an intangible asset with an indefinite life for a total amount of Ps. 34,279 million included in our financial statements as Rights to produce and distribute Coca-Cola trademark products and the reduction to fair value of certain assets consisting primarily of facilities that we consider non-strategic as well as the elimination of certain intangible assets that were generated from acquisitions previously effected by Panamco.

Note 2. Termination of the FEMSA and Interbrew Joint Venture Agreements

On August 31, 2004, our company consummated a series of agreements with InBev (formerly known as Interbrew), Labatt and certain of their affiliates pursuant to a series of agreements entered into on May 24, 2004 to terminate the existing arrangements among affiliates of FEMSA and Interbrew. These agreements provided for payments by affiliates of FEMSA in a total amount of US$ 1.245 billion. As a result of these transactions:

FEMSA owns 100% of FEMSA Cerveza;

InBev owns 100% of Labatt USA, its U.S. distribution subsidiary; and

Labatt USA s right to distribute the FEMSA Cerveza brands in the United States will terminate on December 31, 2004.

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The transaction was financed as follows:

US$ 295 million of cash on hand;

US$ 500 million bridge loans to FEMSA, of which US$ 250 million is denominated in U.S. dollars and the remaining US$ 250 million is denominated in Mexican pesos, each of which is assumed to be refinanced with the net proceeds of the global offering and the Mexican B Unit offerings;

US$ 217 million equivalent in Mexican peso-denominated *certificados bursátiles* issued by FEMSA and guaranteed by FEMSA Cerveza, of which US$ 108.5 million have a maturity of five years and US$ 108.5 million have a maturity of four years;

US$ 150 million equivalent in a Mexican peso-denominated unsecured term loan to FEMSA with a maturity of four years; and

US$ 83 million equivalent in a Mexican peso-denominated unsecured term loan to FEMSA Cerveza with a maturity of five years.

Note 3. Unaudited Pro Forma Condensed Consolidated Financial Information

The columns presented in the unaudited pro forma income statements represent the following:

FEMSA as Reported

This column reflects the audited consolidated income statement of FEMSA and subsidiaries for the year ended December 31, 2003 contained in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus, and the unaudited consolidated income statement of FEMSA and subsidiaries for the six months ended June 30, 2004 included in this prospectus.

Panamco Income Statement

This column reflects the consolidated income statement of Panamco and subsidiaries for the period from January 1, 2003 to April 30, 2003, presented on a Mexican GAAP basis and incorporating the accounting policies of Coca-Cola FEMSA.

Panamco Pro Forma Adjustments

This column reflects the pro forma adjustments from January 1 to April 30, 2003, before the acquisition of Panamco, which are as follows:

(a)

The fair value adjustments to Panamco s assets discussed in Note 1 resulted in a decrease in the aggregate amount of Ps. 104 million in depreciation and amortization, cost of sales, administrative expenses, selling expenses and other expenses. These adjustments resulted mainly from our reduction of the historical book values of the Panamco assets prior to the acquisition to their fair value at the time of the acquisition.

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(b) Pro forma adjustments to the integral result of financing include:

1. The interest expense pro forma adjustment is the net effect of:

i. The additional interest expense attributable to the indebtedness incurred to finance the Panamco acquisition. Ps. 5,756 million of a bridge loan that was refinanced shortly after the acquisition is assumed to have been refinanced as of January 1, 2003. The new indebtedness and the related interest rates are as follows:

New Indebtedness	Amount in Millions Mexican Pesos	Interest Rate	Average Interest Annual Rate(1)	Interest Expense(2) (January to April 2003)
Mexican pesos:				
Certificados bursátiles	Ps. 5,046	TIIE(3) + 0.55%	9.68%	Ps. 162
Certificados bursátiles	3,992	CETES(4) + 1.2%	9.65%	128
Term loan	2,865	TIIE(3) + 0.45%	9.58%	91
Fixed rate note	1,045	10.4% Fixed	10.40%	35
Fixed rate note	539	9.9% Fixed	9.90%	17
U.S. dollars:				
Term loan	5,561	LIBOR(5) + 0.85%	2.11%	39
Bridge loan	3,175	LIBOR(5) + 1.0%	2.25%	24
Total	Ps. 22,223			Ps. 496

ii. The cancellation of interest expense attributable to the prepaid indebtedness of Panamco. The prepaid indebtedness and the related interest rates are as follows:

Prepaid Indebtedness	Amount in Millions Mexican Pesos	Interest Rate	Average Interest Annual Rate(1)	Interest Expense(2) (January to April 2003)
U.S. dollar	Ps. 3,572	LIBOR(5) + 3.0%(6)	4.77%	Ps. 57
Mexican Pesos	458	TIIE(3) + 0.75%	9.33%	14
Total	Ps. 4,030			Ps. 71

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(1) Calculated using historical rates at the end of each month. A hypothetical 1/8% variance in the variable interest rates applied would result in an aggregate increase of Ps. 8 million in interest expense.
(2) Interest expense was calculated by applying the average annual interest rate to the amount of outstanding indebtedness.
(3) *Tasa de Interés Interbancaria de Equilibrio*.
(4) *Certificados de la Tesorería.*
(5) London Interbank Offered Rate.
(6) Compounded rate of nine U.S. dollar-denominated loans.

2. The reduction in interest income resulting from the cancellation of Ps. 35 million in interest income resulting from the application of the historical average interest rates earned by our cash investments of 1.24% for the four-month period ended April 30, 2003 to the US$ 267 million in cash and cash equivalents used in the acquisition of Panamco.

3. The foreign exchange gain resulting from the devaluation of the Mexican peso against the U.S. dollar from Ps. 10.459 per U.S. dollar on January 1, 2003 to Ps. 10.288 per U.S. dollar on April 30, 2003 as applied to the following U.S. dollar-denominated loans:

   US$ 778 million of new indebtedness incurred for the Panamco acquisition, which is equivalent to Ps. 137 million; and

US$ 318 million of prepaid indebtedness of Panamco, which is equivalent to a cancellation of Ps. 56 million.

4. The gain on monetary position resulting in the net effect of:

an increase of Ps. 312 million, resulting from the application of factors derived from the Mexican Consumer Price Index of 1.4% for the four-month period ended April 30, 2003 to US$ 1,978 million of new indebtedness incurred for the Panamco acquisition; and

a cancellation of Ps. 72 million, resulting from the application of factors derived from the consumer price indices of the countries in which the US$ 359 million of prepaid indebtedness was held, based on a compounded average rate of 1.8%.

(c) Pro forma adjustments to income taxes and employee profit sharing resulting from the application of the effective tax rate for the period of January 1, 2003 to April 30, 2003 to the adjustments described above.

(d) Pro forma adjustments to the minority interest for Coca-Cola FEMSA calculated by multiplying 54.3% by the net majority income adjustments relating to the Panamco acquisition described in this and previous columns.

Termination of FEMSA-Interbrew Joint Venture

This column reflects the following pro forma adjustments:

(e) The cancellation of the equity method in the Labatt USA investment.

(f) The incremental integral cost of financing for the year ended December 31, 2003 and the six months ended June 30, 2004 generated by the indebtedness incurred, the decrease in cash and cash equivalents and their corresponding foreign exchange loss and gain on monetary position:

1. Interest expense was calculated in accordance with the financing agreements described in note 2 above and the related applicable interest rates during each period as follows:

			Average Interest Annual Rate(1)		Annual Interest Expense(2)	
Indebtedness	**Amount in Millions Mexican Pesos**	**Interest Rate**	**December 31, 2003**	**June 30, 2004**	**December 31, 2003**	**June 30, 2004**
Certificados bursátiles	Ps. 1,250	CETES(3) + 0.89%	7.39%	7.19%	Ps. 93	Ps. 45
Certificados bursátiles	1,250	TIIE(4) + 0.30%	7.14%	6.76%	89	42
FEMSA long-term loan	1,727	TIIE(4)	7.01%	6.81%	121	59

		+ 0.35%				
FEMSA Cerveza long-term loan	956	TIIE[4] + 0.375%	7.01%	6.84%	67	33
Total	Ps. 5,181				Ps. 370	Ps. 179

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(1) Calculated using the historical rates at the end of each month. A hypothetical 1/8% variance in the variable interest rates applied would result in an aggregate increase of Ps. 6 million in interest expense for the year ended December 31, 2003 and Ps. 3 million for the six months ended June 30, 2004.

(2) Interest expense was calculated by applying the average annual interest rate to the amount of outstanding indebtedness.

(3) *Certificados de la Tesorería*

(4) *Tasa de Interés Interbancaria de Equilibrio*.

2. The cancellation of the interest income generated by the cash and cash equivalents of US$ 295 million used in the acquisition of 30% of FEMSA Cerveza and US$ 20 million used to pay transaction expenses, applying the historical average interest rates earned by our cash investments in each period, equivalent to 6.0% for year ended December 31, 2003 and 4.3% for the six months ended June 30, 2004.

3. The gain on monetary position was calculated by applying to the new indebtedness and cash used in the transactions described above factors derived from the Mexican Consumer Price Index calculated on a monthly basis, resulting in an average rate of 3.99% and 1.62% for the year ended December 31, 2003 and for the six months ended June 30, 2004, respectively.

(g) Pro forma adjustments to income taxes and employee profit sharing resulting from the application of the statutory rates of 34% and 33%, for the year ended December 31, 2003 and for the six months ended June 30, 2004, respectively, to the adjustments related to the incremental integral cost of the financings described above.

(h) Pro forma adjustment to minority interest for FEMSA Cerveza for the cancellation of the 30% participation of Interbrew.

Equity Offering

This column presents the number of shares (assuming a price per unit of Ps. 50) that would be issued in the global offering and the Mexican B Unit offerings in order to repay bridge loans incurred to acquire 30% of FEMSA Cerveza, assuming aggregate proceeds of Ps. 5,756 million as follows:

Global offering in an aggregate amount of Ps. 3,108 million, assuming the issuance of 62.166 million BD Units (in the form of BD Units and ADS).

Mexican B Unit offerings in an aggregate amount of Ps. 2,648 million, assuming the issuance of 52.957 million B Units.

Pro Forma

This column is the sum of the previous columns and reflects the results of FEMSA under Mexican GAAP as if the acquisition of Panamco and the termination of the FEMSA-Interbrew joint venture had occurred on January 1, 2003.

The columns presented in the unaudited pro forma condensed consolidated balance sheet represent the following:

FEMSA as Reported

This column reflects the historical unaudited consolidated balance sheet of FEMSA and subsidiaries as of June 30, 2004 included in this prospectus.

Termination of FEMSA-Interbrew Joint Venture

This column reflects the following pro forma adjustments:

(a) The decrease in cash and cash equivalents corresponding to the cash available for the Interbrew transactions of approximately US$ 295 million and estimated transaction expenses of approximately US$ 20 million, both translated at a rate of Ps. 11.5123 per U.S. dollar.

(b) The cancellation of the Labatt USA investment in shares at an equity method value of Ps. 160 million.

(c) The intangible asset generated in the acquisition of 30% of FEMSA Cerveza that is the difference between the fair value of the net investment and the total price paid, which includes an estimated US$ 20 million of fees and expenses to be paid in cash.

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(d) The increase in long-term liabilities corresponding to the financings described above (including the repayment of the bridge loans with the proceeds of the global offering and the Mexican B Units offerings) translated at a rate of 11.5123 Mexican pesos per U.S. dollar.

(e) The cancellation of the 30% participation of Interbrew in the stockholders equity of FEMSA Cerveza at book value.

Equity Offering

This column reflects the proceeds from the global offering and the Mexican B Unit offerings necessary to repay the bridge loans incurred to acquire 30% of FEMSA Cerveza, after payment of estimated fees and expenses of Ps. 110 million to be paid in cash in connection with the offerings. The increase in capital stock assumes that 62.166 million BD Units and 52.957 million B Units are issued, in each case at a price per unit of Ps. 50.

Pro Forma

This column is the sum of the previous two columns and reflects the financial position of FEMSA as if the termination of FEMSA-Interbrew joint venture had occurred on June 30, 2004.

We are in the process of determining the fair value of the net assets acquired in the termination of the FEMSA-Interbrew joint venture, although we do not expect that the fair value of our tangible assets and liabilities will differ from their carrying value as of the date of the acquisition. During this process we have identified only two intangible assets with indefinite lives: (1) trademarks and (2) beer distribution rights. The valuation of these two intangible assets, based on the percentages acquired, is slightly greater than the difference between the purchase price and the preliminary fair value of the assets acquired and liabilities assumed. Therefore, we do not expect to recognize any goodwill as a result of the acquisition. The nature and amounts of the intangible assets recognized in the acquisition are the same under Mexican GAAP and U.S. GAAP.

The preliminary fair values of the assets acquired and liabilities assumed are as follows:

	June 30, 2004
Cash and cash equivalents	Ps. 1,209
Other current assets	1,537
Properties, plant and equipment	4,947
Other assets	1,309
Trademarks and beer distribution rights	9,143
Total assets acquired	18,145
Short-term debt	319
Other current liabilities	819
Long-term debt	1,486
Other long-term debt	958
Total liabilities assumed	3,582

Net assets acquired	Ps. 14,563

Note 4. Reconciliation of Mexican GAAP to U.S. GAAP

Our unaudited pro forma condensed consolidated financial information was prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. A description of the reconciling items and a reconciliation of the reported majority net income and majority stockholders equity to U.S. GAAP are included in Notes 25 and 26, respectively, to our audited consolidated financial statements as of and for the year ended December 31, 2003 contained in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus, and in Notes 27 and 28 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2004 included in this prospectus.

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(a) Reconciliation of unaudited pro forma majority net income in millions of Mexican pesos as of June 30, 2004 and December 31, 2003 as applicable:

	June 30, 2004	December 31, 2003
Unaudited pro forma majority net income before extraordinary items under Mexican GAAP	Ps.2,095	Ps.3,381
U.S. GAAP adjustments:		
Deferred promotional expenses	(68)	(101)
Start-up expenses	(9)	(27)
Intangible assets and goodwill	7	14
Restatement of imported machinery and equipment	(15)	(73)
Capitalization of integral result of financing	(13)	(24)
Financial instruments	(40)	136
Deferred income taxes	204	178
Deferred employee profit sharing	18	129
Pension plan	(13)	(18)
Minority interest in U.S. GAAP adjustments	(15)	10
Total adjustments	56	224
Unaudited pro forma net income before extraordinary items under U.S. GAAP	Ps.2,151	Ps.3,605
Weighted average number of shares outstanding (in millions):		
Series B Shares	3,002.5	3,002.5
Series D Shares	2,870.4	2,870.4
Allocation of earnings:		
Series B Shares	45.56%	45.56%
Series D Shares	54.44%	54.44%
Net income before extraordinary items:		
(in Mexican pesos)		
Per Series B Share	Ps.0.33	Ps.0.55
Per Series D Share	Ps.0.41	Ps.0.68

(b) Reconciliation of unaudited pro forma stockholders equity in millions of Mexican pesos:

	June 30, 2004
Unaudited pro forma majority stockholders equity under Mexican GAAP	Ps.36,625
U.S. GAAP adjustments:	
Deferred promotional expenses	(181)
Start-up expenses	(125)
Intangible assets and goodwill	79
Restatement of imported machinery and equipment	(26)
Capitalization of integral result of financing	477
Financial instruments	234
Deferred income taxes	(198)
Deferred employee profit sharing	(1,596)
Pension plan	40
Minority interest in U.S. GAAP adjustments	195
Acquisition of minority interest	14,849

Total adjustments	13,748
Unaudited pro forma stockholders equity under U.S. GAAP	Ps.50,373

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Note 5. Financial Instruments

In connection with the financing of the Interbrew transactions, we entered into forward contracts to buy U.S. dollars. The aggregate amount of the forward contracts was US$ 940 million with maturity dates from July to December 2004 and with a compounded average forward exchange rate of 11.63 Mexican pesos per U.S. dollar. During August 2004, US$ 690 million of these forward contracts matured, generating an exchange loss of Ps. 71 million that is not recorded in the unaudited pro forma consolidated income statements. The remaining US$ 250 million in forward contracts are outstanding with maturities in December 2004 and a forward exchange rate of 11.75 Mexican pesos per U.S. dollar. We did not estimate exchange rates applicable at the maturity date for the forward contracts maturing in December 2004. Any exchange rate variation between the exchange rate as of the day on which the forward contracts mature and the forward exchange rate will be recorded as a foreign exchange gain or loss, as applicable, in our income statement.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

General

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements in our annual report on Form 20-F as of and for the year ended December 31, 2003, which is incorporated by reference in this prospectus, and our unaudited consolidated financial statements as of and for the six months ended June 30, 2004 included in this prospectus, and in each case the notes to those financial statements. Our consolidated financial statements were prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. Notes 25 and 26 to our consolidated financial statements for the year ended December 31, 2003 and notes 27 and 28 to our unaudited consolidated financial statements for the six months ended June 30, 2004 provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of net majority income, majority stockholders equity and certain other selected financial data.

Our consolidated financial statements include the financial statements of FEMSA and those of all companies in which we own directly or indirectly a majority of the outstanding voting capital stock and/or exercise control.

Unless otherwise specified, we have presented all financial data for full-year periods included in our consolidated financial statements in constant Mexican pesos at December 31, 2003. We have presented all financial data as of June 30, 2004 and for the six months ended June 30, 2004 and June 30, 2003 in constant Mexican pesos at June 30, 2004. We believe that the effect of not restating the financial data for the full-year periods included in our consolidated financial statements in constant Mexican pesos as of June 30, 2004 is not material, as the Mexican Consumer Price Index was 1.63% for the six months ended June 30, 2004.

Overview of Events, Trends and Uncertainties

Management currently considers the following events, trends and uncertainties to be important to understanding its results of operations and financial condition during the periods discussed in this section:

The financial information presented is often not comparable to prior or subsequent periods because of the acquisition of Panamco by our subsidiary Coca-Cola FEMSA in May 2003.

Coca-Cola FEMSA has been adversely affected by decreases in the average prices of its products as a result of the addition of new territories acquired through the Panamco acquisition and a tougher competitive environment in Mexico, its most important market. These trends, together with higher raw material prices, have offset gains in profitability resulting from the integration of the new territories and have generally reduced the overall profitability of our soft-drink business.

At FEMSA Cerveza, total beer sales volumes have increased in both Mexico and in the export market. We also increased domestic prices an average of 5% in nominal terms during February 2004. At the same time, we have successfully reduced costs and operating expenses. We recently terminated our joint venture arrangements with Interbrew and its affiliates, and Heineken USA will begin distributing FEMSA Cerveza s beer brands in the United States on January 1, 2005.

FEMSA Comercio continues to increase the number of Oxxo stores and to grow in terms of total revenues and as a percentage of our consolidated total revenues. FEMSA Comercio has lower operating margins than our beverage businesses. We expect to continue to expand the Oxxo chain during 2005.

In connection with the Interbrew transactions, we increased the amount of our consolidated debt. We expect to repay a significant amount of this new indebtedness with the proceeds of the global offering and the Mexican B Unit offerings and to continue to be able to rely on cash generated from operations to fund our liquidity needs.

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Each of these items is discussed in further detail in the remainder of this section. In addition, our results of operations and financial condition are affected by the economic and market conditions in the countries where our subsidiaries conduct their operations, particularly Mexico. Changes in these conditions are influenced by a number of factors, including those discussed in this section and under Risk Factors in this prospectus.

Recent Developments

Interbrew Transactions

On August 31, 2004, we consummated a series of transactions with InBev (formerly known as Interbrew), Labatt, and certain of their affiliates pursuant to a series of agreements entered into on May 24, 2004, to terminate the existing arrangements between FEMSA Cerveza and Labatt. InBev was created from the combination of Interbrew and AmBev that was consummated on August 27, 2004. As a result of these transactions:

- FEMSA owns 100% of FEMSA Cerveza and existing arrangements among affiliates of FEMSA and Interbrew relating to governance, transfer of ownership and other matters with respect to FEMSA Cerveza have been terminated;
- InBev indirectly owns 100% of Labatt USA, and existing arrangements among affiliates of FEMSA and InBev relating to governance, transfer of ownership and other matters with respect to Labatt USA have been terminated; and
- Labatt USA s right to distribute the FEMSA Cerveza brands in the United States will terminate on December 31, 2004.

We paid InBev US$ 1.245 billion for its affiliates 30% interest in FEMSA Cerveza, which was financed as described below under Liquidity and Capital Resources Financing for Interbrew Transactions.

Heineken U.S. Distribution Agreements

On June 21, 2004, FEMSA Cerveza and two of its subsidiaries entered into distributor and sublicense agreements with Heineken USA. In accordance with these agreements, Heineken USA will be the exclusive importer, marketer and seller of FEMSA Cerveza s brands in the United States, commencing on January 1, 2005. These agreements will expire on December 31, 2007.

Other Recent Developments

On June 8, 2004, a group of Brazilian investors, among them Mr. José Luis Cutrale, a recently appointed member of Coca-Cola FEMSA s board of directors, made a capital contribution equivalent to approximately US$ 50 million to Coca-Cola FEMSA s Brazilian operations in exchange for a 16.9% equity stake in these operations. Mr. Cutrale is a Brazilian entrepreneur and owns businesses that are producers of fruit juices, with customers that include The Minute Maid Company, a division of The Coca-Cola Company.

On June 22, 2004, FEMSA Cerveza s brewing subsidiary and Coors Brewing Company entered into an agreement pursuant to which FEMSA Cerveza s subsidiary was appointed the exclusive importer, distributor, marketer and seller of *Coors Light* beer in Mexico. This agreement has an initial term of 10 years and is automatically renewable.

In May 2004, our subsidiary Coca-Cola FEMSA obtained a favorable final ruling not subject to appeal from a Mexican federal court allowing it to deduct a tax loss carry forward arising from a sale of shares during 2002. As a result of the ruling, our consolidated net income for the first six months of 2004 increased by Ps. 1.258 billion. In August 2004, we received Ps. 1.124 billion in the form of a cash reimbursement and will receive the balance in the form of a tax deduction.

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On August 24, 2004, the Mexican Antitrust Commission announced that it was launching an investigation into beer industry practices with respect to exclusivity arrangements in general. FEMSA and FEMSA Cerveza received requests for information on September 15, 2004 from the Mexican Antitrust Commission, and we are currently reviewing these requests in order to formulate a response. On October 7, 2004, we initiated an equitable proceeding (*amparo*) before a Mexican federal court to challenge the constitutionality of the Mexican Antitrust Commission s investigation. We cannot give any assurance that any action in the future taken as a result of this investigation will not negatively affect us.

Acquisition of Panamco

On May 6, 2003, our subsidiary, Coca-Cola FEMSA, completed the acquisition of Panamco. The acquisition of Panamco resulted in a substantial increase in the size and geographic scope of our subsidiary s operations. The purchase price for 100% of the capital stock of Panamco was Ps. 29.518 billion, excluding transaction expenses. Coca-Cola FEMSA also assumed Ps. 9.085 billion of net debt. The acquisition was financed with an equity contribution from us of Ps. 2.779 billion, an exchange of The Coca-Cola Company s equity interests in Panamco valued at Ps. 7.041 billion for new shares of Coca-Cola FEMSA, cash on hand of Ps. 2.820 billion and new indebtedness of Coca-Cola FEMSA in Mexican pesos and U.S. dollars in the amount of Ps. 17.267 billion. As a result of the Panamco acquisition, in accordance with Mexican GAAP, Coca-Cola FEMSA recognized as intangible assets with indefinite lives, the rights to produce and distribute trademark brands of The Coca-Cola Company. These identified intangibles, calculated as the difference between the price paid and the fair value of the net assets acquired, were valued at Ps. 33.420 billion, including financial and advisory fees, costs associated with closing certain acquired facilities, rationalizing and consolidating operations, relocating the corporate and other offices and the integration of the operations.

Comparability of Information Presented

Panamco Acquisition

Under Mexican GAAP, Panamco is included in our consolidated financial statements since May 2003 and is not reflected for periods prior to this date. As a result, our consolidated financial statements as of and for the year ended December 31, 2003 and as of and for the six months ended June 30, 2004 are not comparable to prior periods. Financial information provided by us with respect to the newly acquired territories is also not comparable to Panamco s consolidated financials statements for prior periods as they were prepared using different policies and in accordance with U.S. GAAP and in U.S. dollars, while we present our financial statements in Mexican GAAP and Mexican pesos. The acquisition of Panamco only impacted the comparability of our consolidated information and of the Coca-Cola FEMSA segment. The comparability of our remaining segments was not affected by the acquisition.

Transfer of Six Stores

During the month of December 2003, all of the Six stores previously owned by FEMSA Cerveza that were considered suitable to be converted into the Oxxo format were sold to FEMSA Comercio. This amounted to 319 Six stores. We believe the transfer will increase FEMSA Cerveza s ability to focus on its core operations, while providing FEMSA Comercio with a number of proven locations. We expect to convert approximately two-thirds of the transferred Six stores into Oxxo stores during 2004, and to convert the remaining stores thereafter. In order to assure comparability, and in accordance with Mexican GAAP, the financial results of these Six stores were removed from FEMSA Cerveza and included in FEMSA Comercio for the first six months of 2003. This change does not impact FEMSA s consolidated results.

Effects of Changes in Economic Conditions

Our results of operations are affected by changes in economic conditions in Mexico and in the other countries in which we operate. For the years ended December 31, 2003, 2002 and 2001, 84.6 %, 96.7% and

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96.2%, respectively, of our total sales were attributable to Mexico. As a result, after the acquisition of Panamco, we have greater exposure to countries in which we have not historically conducted operations, particularly countries in Central America and Colombia, Venezuela and Brazil, although we continue to generate a substantial portion of our total sales from Mexico.

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

Operating Leverage

Companies with structural characteristics that result in margin expansion in excess of sales growth are referred to as having high operating leverage.

The operating subsidiaries of Coca-Cola FEMSA, FEMSA Cerveza and FEMSA Empaques are engaged, to varying degrees, in capital-intensive activities. The high utilization of the installed capacity of the production facilities results in better fixed cost absorption, as increased output results in higher revenues without additional fixed costs. Absent significant increases in variable costs, gross profit margins will expand when production facilities are operated at higher utilization rates. Alternatively, higher fixed costs will result in lower gross profit margins in periods of lower output.

In addition, the commercial operations of Coca-Cola FEMSA and FEMSA Cerveza are carried out through extensive distribution networks, the principal fixed assets of which are warehouses and trucks. The distribution systems of both Coca-Cola FEMSA and FEMSA Cerveza are designed to handle large volumes of beverages. Fixed costs represent an important proportion of the total distribution expense of both Coca-Cola FEMSA and FEMSA Cerveza. Generally, the higher the volume that passes through the distribution system, the lower the fixed distribution cost as a percentage of the corresponding revenues. As a result, operating margins improve when the distribution capacity is operated at higher utilization rates. Nonetheless, periods of decreased utilization because of lower volumes will negatively impact our operating margins.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires that we make estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent assets and liabilities at the date of the financial statements and (3) the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience and on various other reasonable factors that together form the basis for making judgments about the carrying values of our assets and liabilities. Our actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an on going basis. Our significant accounting policies are described in notes 4 and 5 to our consolidated financial statements, included in our annual report on Form 20-F for the year ended December 31, 2003 incorporated by reference in this prospectus. We believe our most critical accounting policies that imply the application of estimates and/or judgments are:

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Allowance for doubtful accounts

We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivable portfolio. The amount of the allowance contemplates our historical loss rate on receivables and the economic environment in which we operate. Our beer operations represent the most important part of the consolidated allowance for doubtful accounts as a result of the credit that FEMSA Cerveza extends to retailers, on terms and conditions in accordance with industry practices. Soft drink and retail sales are generally realized in cash.

Bottles and cases; allowance for bottle breakage

We classify bottles and cases in accordance with industry practices. Consequently, for FEMSA Cerveza, bottles and cases are classified as inventories, and for Coca-Cola FEMSA, they are classified as fixed assets. For both of these subsidiaries, breakage is expensed as incurred, and returnable bottles and cases are not depreciated. Coca-Cola FEMSA determines depreciation of bottles and cases only for tax purposes.

We periodically compare the book breakage expense with calculated depreciation expense, estimating a useful life of four years for returnable glass bottles, one year for returnable plastic bottles and four years for returnable cases. These useful lives are determined in accordance with our business experience. The annual calculated depreciation expense has been similar to the annual book breakage expense. Whenever we decide to discontinue a particular returnable presentation and retire it from the market, we write-off the discontinued presentation through an increase in the breakage expense.

Property, plant and equipment

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

We describe the methodology used to restate imported equipment in note 5(g) to our consolidated financial statements, included in our annual report on Form 20-F for the year ended December 31, 2003 incorporated by reference in this prospectus, which includes applying the exchange and inflation rates of the country of origin utilized as permitted by Mexican GAAP. We believe this method more accurately presents the fair value of the assets than restated cost determined by applying inflation factors.

Coca-Cola FEMSA valued at fair value all fixed assets acquired in the Panamco transaction, considering their operating conditions and the future cash flows they will generate in accordance with their estimated future use by Coca-Cola FEMSA management.

In 2003, we decided to expand from three to five years the useful life for the refrigerators of the Mexican operations of Coca-Cola FEMSA, based on technical studies, strong control over the refrigerators placed in point of sales and the replacement investment refrigerator program for the following years. As a result, depreciation expense recorded in 2003 decreased approximately Ps. 92 million. The useful life of refrigerators for the new territories acquired from Panamco is in accordance with the new accounting estimate of five years.

Valuation of intangible assets and goodwill

As we discuss in note 5(i) to the consolidated financial statements, included in our annual report on Form 20-F for the year ended December 31, 2003 incorporated by reference in this prospectus, beginning in 2003 FEMSA applies Bulletin C-8, *Activos Intangibles* (Intangible Assets), or Bulletin C-8, which establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Additionally, Bulletin C-8 requires identifying all intangible assets to reduce as much as possible the goodwill associated with business combinations. Prior to 2003, the excess of the purchase price over the fair value of the

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net assets acquired in a business combination was considered to be goodwill. With the adoption of Bulletin C-8, Coca-Cola FEMSA considers such excess to relate to the rights to produce and distribute trademark Coca-Cola products. We separate intangible assets between those with a finite useful life and those with an indefinite useful life, in accordance with the period over which we expect to receive the benefits.

As required in Bulletin C-8, we determined the fair value of all Panamco s assets and liabilities as of the date of acquisition, and we assigned the excess purchase price over the fair value of the net assets. This resulted in the recognition of an intangible asset with indefinite life denominated Rights to produce and distribute Coca-Cola trademark products of Ps. 33,420 million, which will be subject to annual impairment tests, for U.S. GAAP and Mexican GAAP. The fair value of the assets and liabilities was determined considering the following:

The fair value of the assets acquired: the value of fixed assets, glass returnable bottles and refrigerators were adjusted considering their remaining useful lives, general operational conditions of the assets at the acquisition date, certain operational and strategic decisions that Coca-Cola FEMSA implemented as it assumed control of the operations as well as the standardization with Coca-Cola FEMSA s accounting policies and estimates.

Labor and other liabilities: severance of personnel and other obligations generated by Panamco s operations before Coca-Cola FEMSA assumed control of the operations.

Cancellation of goodwill: the goodwill previously recorded by Panamco was cancelled.

For Mexican GAAP purposes, goodwill is the difference between the price paid and the fair value of the shares and/or net assets acquired that was not assigned directly to an intangible asset. Goodwill is recorded in the functional currency of the subsidiary in which the investment was made and is restated by applying the inflation rate of the country of origin and the year-end exchange rate. Goodwill is amortized over a period of not more than 20 years.

Under U.S. GAAP, SFAS No. 142, Goodwill and Other Intangible Assets went into effect in 2002. Under this standard, goodwill is no longer subject to amortization, but instead is subject to an initial impairment review in 2002 and subsequent impairment test to be performed annually by us, unless an event occurs or circumstances change by which it becomes more likely than not that a reporting unit reduces its fair value below its carrying amount, in which case an interim impairment test must be performed. Our impairment review indicates that no impairment charge is required as of the beginning of 2004.

Impairment of intangible assets, goodwill and long-lived assets

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

In December 2001, the Argentine government adopted a series of economic measures, the most important of which consisted of restrictions on cash withdrawals and foreign exchange transactions. Due to the continuing difficult economic situation in Argentina, the uncertainty with respect to the period of recovery and the instability of the exchange rate, on July 1, 2002, we performed a valuation of our investment in Coca-Cola FEMSA Buenos Aires, based on market price value multiples of comparable businesses. The valuation resulted in the recognition of an impairment of Ps. 457 million, which was recorded in our results of 2002. Given the present economic situation in Argentina, we believe that the current net asset value of our foreign subsidiary is fairly valued, and although we can give no assurances, we do not expect to recognize additional impairments in the future in Argentina.

During 2003, FEMSA Cerveza recognized an impairment of certain fixed assets that will be replaced in the near future in accordance with its master investment plan. The replacement cost of the new machinery and equipment as well as the new location compared to carrying value of these assets result in a loss, which was recorded in other expenses in the 2003 income statement of Ps. 680 million.

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

Executory contracts

As part of the normal course of business, we frequently invest in the development of our beer distribution channels through a variety of commercial agreements with different retailers in order to generate sales volume. These agreements are considered to be executory contracts and accordingly the costs incurred under these contracts are recognized as performance under the contracts is received.

These agreements require cash disbursements to be made in advance to certain retailers in order to fund activities intended to generate volume. These advance cash disbursements are then compensated for as sales are invoiced. These disbursements are considered to be market-related investments, which are capitalized as other assets. The amortization of amounts capitalized is presented as a reduction of net sales in relation to the volume sold to each retailer. The period of amortization is between three and four years, which is the normal term of the commercial agreements.

We periodically evaluate the carrying value of executory contracts. If the carrying value is considered to be impaired, these assets are written down as appropriate. The accuracy of the carrying value is based on our ability to predict certain key variables such as sales volume, prices and other industry and economic factors. Predicting these key variables involves assumptions based on future events. These assumptions are consistent with our internal projections.

Labor liabilities

Our labor liabilities are comprised of pension plan, seniority premium and post-retirement medical services. The determination of our obligations and expenses for pension and other post-retirement benefits is dependent on our selection of certain assumptions used by actuaries in calculating such amounts. We evaluate our assumptions at least annually. Those assumptions are described in note 15 to our consolidated financial statements, included in our annual report on Form 20-F for the year ended December 31, 2003 incorporated by reference in this prospectus, and include the discount rate, expected long-term rate of return on plan assets, rates of increase in compensation costs and certain employee-related factors, such as turnover, retirement age and mortality. All of our assumptions depend on the economic circumstances of each country in which we operate.

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In accordance with Mexican GAAP, actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expenses and recorded obligations in these future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other post-retirement obligations and our future expense. The following table is a summary of the three key assumptions to be used in determining 2004 annual pension expense for Mexico, along with the impact on pension expense of a 1% change in each assumed rate.

		Impact of Change in Millions of Ps. [(1)]	
Assumption	**2004 Rate (in real terms)**	**+1%**	**-1%**
Mexican Subsidiaries:			
Discount rate	6.0%	Ps. (184)	Ps. 350
Salary growth rate	2.0%	186	(123)
Long-term asset return	6.0%	(184)	350
Foreign Subsidiaries:			
Discount rate	4.5%	(31)	36
Salary growth rate	1.5%	36	(29)
Long-term asset return	4.5%	(31)	36

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

Income taxes

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

Beginning in 2003, the statutory income tax rate in Mexico will be reduced by 1% per year through 2005, when the rate will be 32%. In accordance with this tax rate reduction, we decided to recognize under Mexican GAAP, in December 2001, a reduction in deferred income tax liabilities and in the income tax provision for the year, based on the expected dates of reversal of the temporary differences. Depreciation of fixed assets represents the most important temporary difference to be reversed in future years at a lower rate. For U.S. GAAP, a change in the statutory tax rate may not to be considered until the enactment date, which is January 1, 2002.

Tax and legal contingencies

We are subject to various claims and contingencies related to tax and legal proceedings as described in note 23 to our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss.

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Operating Results

The following table sets forth our consolidated income statement for the six months ended June 30, 2004 and 2003:

	Six Months Ended June 30,	
	2004	2003
	(in millions of constant Mexican pesos at June 30, 2004)	
Net sales	Ps. 43,568	Ps. 33,304
Other operating revenues	144	135
Total revenues	43,712	33,439
Cost of sales	23,198	17,356
Gross profit	20,514	16,083
Operating expenses:		
Administrative	3,124	2,653
Sales	11,182	8,132
Total operating expenses	14,306	10,785
Income from operations	6,208	5,298
Participation in affiliated companies	9	(21)
	6,217	5,277
Integral result of financing:		
Interest expense	(1,668)	(961)
Interest income	180	343
	(1,488)	(618)
Foreign exchange loss	(167)	(971)
Gain on monetary position	544	36
	(1,111)	(1,553)
Other expenses, net	(231)	(568)
Income before income tax, tax on assets and employee profit sharing	4,875	3,156
Income tax, tax on assets and employee profit sharing	1,920	1,329
Consolidated net income before extraordinary items	2,955	1,827
Extraordinary items	1,175	

Consolidated net income	Ps. 4,130	Ps. 1,827
Net majority income	2,434	1,217
Net minority income	1,696	610
Consolidated net income	Ps. 4,130	Ps. 1,827

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The following table sets forth our consolidated income statement for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
	2003	**2002**	**2001**
	(in millions of constant Mexican pesos at December 31, 2003)		
Net sales	Ps. 75,597	Ps. 55,176	Ps. 52,301
Other operating revenues	294	219	164
Total revenues	75,891	55,395	52,465
Cost of sales	39,371	27,640	26,070
Gross profit	36,520	27,755	26,395
Operating expenses:			
Administrative	5,740	4,870	4,814
Sales	18,696	13,094	12,713
Total operating expenses	24,436	17,964	17,527
Income from operations	12,084	9,791	8,868
Participation in affiliated companies	30	87	34
	12,114	9,878	8,902
Interest expense	(2,540)	(943)	(985)
Interest income	695	465	497
	(1,845)	(478)	(488)
Foreign exchange gain (loss)	(2,532)	(293)	256
Gain (loss) on monetary position	954	398	(42)
	(3,423)	(373)	(274)
Other expenses, net	(656)	(950)	(314)
Income for the year before income tax, tax on assets and employee profit sharing	8,035	8,555	8,314
Income tax, tax on assets and employee profit sharing	3,378	3,764	3,069
Net income before change in accounting principle	4,657	4,791	5,245
Change in accounting principle			(30)
Consolidated net income	Ps. 4,657	Ps. 4,791	Ps. 5,215
Net majority income	3,093	2,947	3,547
Net minority income	1,564	1,844	1,668
Consolidated net income	Ps. 4,657	Ps. 4,791	Ps. 5,215

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Results of Operations by Business Segment

The following table sets forth certain financial information for each of our business segments for the six months ended June 30, 2004 and 2003:

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	(in millions of constant Mexican pesos at June 30, 2004, except for percentages)	
Net Sales		
Coca-Cola FEMSA	Ps. 21,523	Ps. 13,711
FEMSA Cerveza	10,940	10,376
FEMSA Comercio	10,128	8,307
FEMSA Empaques	3,873	3,547
Total Revenues		
Coca-Cola FEMSA	21,642	13,828
FEMSA Cerveza	11,024	10,444
FEMSA Comercio	10,128	8,307
FEMSA Empaques	3,885	3,559
Cost of Sales		
Coca-Cola FEMSA	11,111	6,877
FEMSA Cerveza	4,616	4,388
FEMSA Comercio	7,488	6,153
FEMSA Empaques	2,998	2,720
Gross Profit		
Coca-Cola FEMSA	10,531	6,951
FEMSA Cerveza	6,408	6,056
FEMSA Comercio	2,640	2,154
FEMSA Empaques	887	839
Income from Operations[(1)]		
Coca-Cola FEMSA	3,331	2,877
FEMSA Cerveza	1,895	1,611
FEMSA Comercio	346	305
FEMSA Empaques	513	466
Depreciation		
Coca-Cola FEMSA[(2)]	909	569
FEMSA Cerveza	581	589
FEMSA Comercio	114	63
FEMSA Empaques	147	131
Gross Margin[(3)]		
Coca-Cola FEMSA	48.7%	50.3%
FEMSA Cerveza	58.1%	58.0%
FEMSA Comercio	26.1%	25.9%
FEMSA Empaques	22.8%	23.6%

Operating Margin[4]		
Coca-Cola FEMSA	15.4%	20.8%
FEMSA Cerveza	17.2%	15.4%
FEMSA Comercio	3.4%	3.7%
FEMSA Empaques	13.2%	13.1%

(1) Includes management fees paid to Grupo Industrial Emprex, S.A. de C.V., a direct subsidiary of FEMSA, and to Labatt in the case of FEMSA Cerveza.

(2) Includes breakage of bottles of Coca-Cola FEMSA.

(3) Gross margin calculated with reference to total revenues.

(4) Operating margin calculated with reference to total revenues and after deduction of management fees.

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The following table sets forth certain financial information for each of our business segments for the years ended December 31, 2003, 2002 and 2001:

	Year Ended December 31,		
	2003	2002	2001
	(in millions of constant Mexican pesos at December 31, 2003, except for percentages)		
Net Sales			
Coca-Cola FEMSA	Ps.35,487	Ps.18,519	Ps.17,636
FEMSA Cerveza	21,763	21,453	21,367
FEMSA Comercio	16,601	13,247	11,157
FEMSA Empaques	7,328	6,843	6,830
Total Revenues			
Coca-Cola FEMSA	35,729	18,668	17,773
FEMSA Cerveza	21,924	21,642	21,529
FEMSA Comercio	16,601	13,247	11,160
FEMSA Empaques	7,352	6,862	6,840
Cost of Sales			
Coca-Cola FEMSA	17,980	8,681	8,256
FEMSA Cerveza	9,425	9,281	9,285
FEMSA Comercio	12,199	9,739	8,293
FEMSA Empaques	5,639	5,193	5,259
Gross Profit			
Coca-Cola FEMSA	17,749	9,987	9,517
FEMSA Cerveza	12,499	12,361	12,244
FEMSA Comercio	4,402	3,508	2,867
FEMSA Empaques	1,713	1,669	1,581
Income from Operations(1)			
Coca-Cola FEMSA	6,710	4,627	4,057
FEMSA Cerveza	3,556	3,600	3,424
FEMSA Comercio	694	506	309
FEMSA Empaques	988	941	890
Depreciation			
Coca-Cola FEMSA(2)	1,480	959	987
FEMSA Cerveza	1,175	1,158	1,030
FEMSA Comercio	131	94	84
FEMSA Empaques	301	272	256
Gross Margin(3)			
Coca-Cola FEMSA	50.0%	53.9%	54.0%
FEMSA Cerveza	57.4%	57.6%	57.3%
FEMSA Comercio	26.5%	26.5%	25.7%
FEMSA Empaques	23.4%	24.4%	23.1%
Operating Margin(4)			
Coca-Cola FEMSA	18.8%	24.8%	22.8%
FEMSA Cerveza	16.2%	16.6%	15.9%
FEMSA Comercio	4.2%	3.8%	2.8%
FEMSA Empaques	13.4%	13.7%	13.0%

(1) Includes management fees paid to Emprex (and to Labatt in the case of FEMSA Cerveza).
(2) Includes breakage of bottles.
(3) Gross margin calculated with reference to net sales.
(4) Operating margin calculated with reference to total revenues and after deduction of management fees.

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Results of Operations for Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

FEMSA Consolidated

Total Revenues

Our consolidated total revenues increased by 30.7% to Ps. 43.712 billion for the first six months of 2004, from Ps. 33.439 billion during the same period of 2003. The increase in total revenues was driven by growth in every one of our main operating companies, although more than 76% of the increase is attributable to the soft-drink operations of Coca-Cola FEMSA. The growth in total revenues during the first six months of 2004 included: (1) a Ps. 7.814 billion increase in total revenues at Coca-Cola FEMSA due mainly to the acquisition of Panamco that took place in May 2003, which resulted in the inclusion of the new Coca-Cola FEMSA territories from that date; (2) a Ps. 1.821 billion increase in total revenues at FEMSA Comercio due to growth in net new Oxxo stores; (3) a Ps. 580 million increase in total revenues at FEMSA Cerveza, resulting from a 5.5% increase in total sales volume, reaching 12.574 million hectoliters; and (4) a Ps. 326 million increase in total revenues at FEMSA Empaques due to growth in demand for glass bottles, crown caps and, to a lesser extent, beverage cans.

Gross Profit

Our cost of sales increased to Ps. 23.198 billion during the first six months of 2004 compared to Ps. 17.356 billion during the first six months of 2003, an increase of 33.7%. More than two thirds of the increase was due to the inclusion of the new Coca-Cola FEMSA territories, while most of the remaining third was due to FEMSA Comercio s store growth.

Our gross margin decreased 1.2% to 46.9% of total revenues during the first six months of 2004 compared to 48.1% for the same period of 2003. The decrease in gross margin was primarily due to the inclusion of the new Coca-Cola FEMSA territories, which have a lower level of profitability than our historical territories, and, to a lesser extent, the increased contribution to our consolidated financial results of the Oxxo retail chain, which has a lower gross margin.

Income from Operations

Our operating expenses increased to Ps. 14.306 billion during the first six months of 2004 compared to Ps. 10.785 billion during the same period of 2003, an increase of 32.6%. Almost 90% of this increase was due to the inclusion of the new Coca-Cola FEMSA territories. Most of the remaining 10% of this increase reflects higher operating expenses at FEMSA Comercio, which has added 687 net new convenience stores since June 2003 and two new regional administrative offices to support the expanded Oxxo operations.

Our income from operations increased 17.2% to Ps. 6.208 billion during the first six months of 2004 from Ps. 5.298 billion during the first six months of 2003, resulting in an operating margin of 14.2%.

The contraction in operating margin of 1.6% from the first six months of 2003 primarily resulted from: (1) the integration of Coca-Cola FEMSA s newly acquired Mexican bottling territories that have a lower level of profitability than Coca-Cola FEMSA s original territories; and (2) the increased contribution to our consolidated financial results of the Oxxo retail chain, which has a lower operating margin. This reduction in operating margin was partially offset by an operating margin improvement of 1.8% at FEMSA Cerveza and of 0.1% at FEMSA Empaques.

Integral Cost of Financing

Net interest expense amounted to Ps. 1.488 billion during the first six months of 2004 compared to Ps. 618 million during the same period of 2003. This increase was primarily due to interest expense related to new debt issued by Coca-Cola FEMSA in order to finance the acquisition of Panamco.

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Foreign exchange loss amounted to Ps. 167 million during the first six months of 2004 compared to Ps. 971 million during the first six months of 2003. The lower loss represented a significant reduction from the loss in the first six months of 2003, which resulted from exchange rate volatility and the large foreign exchange transactions entered into in connection with the Panamco acquisition. In addition, FEMSA and FEMSA Cerveza generated a foreign exchange gain of Ps. 214 million during the first half of 2004 due to the appreciation of the U.S. dollars acquired for the acquisition of 30% of FEMSA Cerveza. The peso depreciated 2.5% in nominal terms versus the U.S. dollar during the first six months of 2004.

Monetary position gain amounted to Ps. 544 million during the first six months of 2004, compared to Ps. 36 million during the first six months of 2003. This higher gain reflects the inflationary impact over the higher liabilities recorded in the first six months of 2004 compared to the same period last year.

Taxes

Tax recognized during the first six months of 2004 amounted to Ps. 1.920 billion, which includes income tax, tax on assets and employee profit sharing, compared to Ps. 1.329 billion during the first six months of 2003. The effective tax rate for the first six months of 2004 was 39.4% and compares favorably to the 42.1% rate for the same period of 2003. The effective tax rate differs from the statutory tax rate as a result of certain permanent differences, such as non-deductible expenses and differences between the book and tax effects of inflation, as well as the effect of the reduction in the statutory income tax rate in Mexico.

Extraordinary Items

In May 2004, our subsidiary Coca-Cola FEMSA obtained a favorable final ruling not subject to appeal from a Mexican federal court allowing it to deduct a tax loss carryforward arising from a sale of shares during 2002. As a result of this ruling, our consolidated net income for the first six months of 2004 increased by Ps. 1.258 billion. This increase was partially offset by a decrease of Ps. 83 million due to a change in the tax deduction criteria for the coolers owned by Coca-Cola FEMSA in Mexico, resulting in a net extraordinary gain of Ps. 1.175 billion for the first six months of 2004.

Net Income

Net income increased 126.1% and reached Ps. 4.130 billion during the first six months of 2004 as compared to Ps. 1.827 billion during the same period of 2003. The extraordinary tax-related gain described in the previous paragraph was responsible for slightly over half of this increase, while the remainder resulted from the inclusion of the new Coca-Cola FEMSA territories, as well as improved results at all of our other business segments. Net majority income amounted to Ps. 2.434 billion for the first six months of 2004 compared with Ps. 1.217 billion for the same period of 2003.

Capital Expenditures

Capital expenditures amounted to Ps. 2.884 billion for the first six months of 2004 (approximately half at FEMSA Cerveza, and one fourth at Coca-Cola FEMSA and one fourth at FEMSA Comercio) compared to Ps. 3.129 billion for the same period of 2003. This lower level of capital expenditures resulted from: (1) investments we completed during 2003 at FEMSA Empaques for refurbishment of one of our glass bottle furnaces that were no longer incurred in 2004; (2) higher investments at FEMSA Comercio as it increased its store growth during the first six months of 2004 compared to the same period of 2003; (3) timing of our capital investments at FEMSA Cerveza during 2004 compared to 2003; and (4) a decline in the capital expenditures at Coca-Cola FEMSA for the first six months of 2004 compared to the same period of 2003.

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Coca-Cola FEMSA

Total Revenues

Coca-Cola FEMSA s total revenues reached Ps. 21.642 billion during the first six months of 2004, an increase of 56.5% from the same period of 2003. This resulted from an increase of 73.5% in sales volume and a reduction of 9.6% in the average price per unit case. Sales volume reached 895.2 million unit cases during the first six months of 2004 compared to 515.9 million unit cases during the first six months of 2003. The volume increase was primarily due to the inclusion of the new Coca-Cola FEMSA territories.

The average price per unit case for the first six months of 2004 was Ps. 24.04, representing a 9.6% decline from the same period for 2003 resulting from a reduction in prices due to an increasingly competitive environment throughout all of Coca-Cola FEMSA s territories, and due to the inclusion of the new Coca-Cola FEMSA territories, which have a lower average price per unit case.

Gross Profit

Cost of sales reached Ps. 11.111 billion during the first six months of 2004 compared to Ps. 6.877 billion during the same period of 2003. More than 98% of this increase resulted from the inclusion of the new Coca-Cola FEMSA territories. Coca-Cola FEMSA also experienced an increase in the cost of sugar, polyethylene terephtalate, which we refer to as PET and other raw materials due to price increases and devaluation of the Mexican peso and the Venezuelan bolivar versus the U.S. dollar but this increase was almost completely offset by a reduction in the cost of concentrate because it is set as a percentage of the sales price, which decreased during the period as a result of the inclusion of the new Coca-Cola FEMSA territories.

Gross margin reached 48.7% during the first six months of 2004 compared to 50.3% during the first six months of 2003. This reduction was primarily due to a decline in Coca-Cola FEMSA s average prices during the period.

Income from Operations

Operating expenses reached Ps. 7.201 billion during the first six months of 2004 compared to Ps. 4.074 billion during the first six months of 2003. Approximately 80% of this increase was due to the inclusion of the new Coca-Cola FEMSA territories, while the remaining 20% reflected higher operating expenses related to the standardization of cooler and distribution fleet maintenance practices, new marketing expenses, and the amortization expense corresponding to the introduction of new cooler equipment.

Income from operations increased to Ps. 3.331 billion during the first six months of 2004 compared to Ps. 2.877 billion during the same period of 2003, representing a 15.8% increase, which primarily reflected the integration of our newly acquired territories. Operating margin was 15.4% in the first six months of 2004 compared to 20.8% in the same period in 2003. This decline in operating margin was primarily due to a reduction in average prices attributable to increased competition in Coca-Cola FEMSA s previous territories and the inclusion of Coca-Cola FEMSA s newly acquired territories, which have a higher cost structure as a percentage of total revenues as compared to Coca-Cola FEMSA s previous territories.

FEMSA Cerveza

Total Revenues

Domestic sales volume grew by 4.0% to 11.395 million hectoliters during the first six months of 2004. This increase was attributable to higher sales volumes for the *Sol*, *Indio* and *Tecate Light* brands. During the month of February 2004 we implemented a 5.0% average price increase.

Export sales volume grew by 22.9% to 1.179 million hectoliters during the first six months of 2004. This growth was primarily due to an increase in sales to the United States, where we estimate that the increase in sales from our distributors to retailers was approximately 14.0%, while the remaining growth came from inventory build-up at our distributors. This 14.0% increase was primarily due to marketing strategies for our *Tecate* and *Dos Equis* brands, and the overall improvement in the U.S. economy during the first half of 2004.

Total revenues increased by 5.6% to Ps. 11.024 billion during the first six months of 2004 from Ps. 10.444 billion during the same period of 2003. Domestic revenues represented 92% of the total, while the remaining 8% came from exports. The 5.0% domestic average price increase in nominal terms was not fully reflected in the sales figures for the first six months of 2004 because it was implemented gradually throughout February.

Gross Profit

Cost of sales increased 5.2% to Ps. 4.616 billion during the first six months of 2004. This increase was 0.4% less than total sales growth due to operating efficiencies, better purchasing terms for raw materials, headcount reductions and lower transportation costs from our breweries to the warehouses. Gross profit reached Ps. 6.408 billion during the first six months of 2004, a 5.8% increase compared to the same period of 2003, resulting in a gross margin of 58.1%, in line with 2003 levels. The margin during the first six months of 2004 was impacted by two offsetting factors: (1) an increase in U.S. dollar-denominated costs, which represent approximately one-third of the cost of sales; and (2) better purchasing terms for raw materials, operating efficiencies resulting in more hectoliters per employee and lower transportation costs from our breweries to the warehouses.

Income from Operations

Administrative expenses increased 6.2% to Ps. 1.247 billion during the first six months of 2004 compared to Ps. 1.174 billion during the same period of 2003. More than 80% of this increase was due to the continued amortization of our ERP, while the remaining 20% was mainly due to other information technology-related expenses.

Selling expenses remained in line with 2003 levels, increasing 0.1% to Ps. 3.059 billion during the first six months of 2004. At 27.7% of total revenues, selling expenses as a percentage of revenues were below levels for the first six months of 2003 of 29.3% as a result of higher sales and more effective management of selling expenses.

Income from operations (before deduction of management fees) increased 15.1% to Ps. 2.103 billion during the first six months of 2004 from Ps. 1.826 billion during the first six months of 2003. Income from operations after deduction of management fees) increased 17.6% to Ps. 1.895 billion during the first six months of 2004 from Ps. 1.611 billion during the first six months of 2003. This increase reflects an improved pricing environment, solid volume growth and more efficient and effective use of selling expenses. Operating margin (before deduction of management fees) increased to 19.1% of total revenues during the first six months of 2004 from 17.5% of total revenues during the first six months of 2003, and operating margin (after deduction of management fees) increased to 17.2% of total revenues during the first six months of 2004 from 15.4% of total revenues during the first six months of 2003. The margin expansion was attributable to higher sales volume, stable fixed costs, production efficiencies and the effective implementation of expense containment initiatives.

FEMSA Comercio

Total Revenues

Total revenues increased by 21.9% to Ps. 10.128 billion during the first six months of 2004 from Ps. 8.307 billion during the same period of 2003. As of June 30, 2004, we had 3,086 convenience stores nationwide, an increase of 687 net new stores from June 30, 2003.

Same-store sales increased an average of 7.7% during the first six months of 2004, reflecting an increase in the average ticket of 4.1% and an increase in store traffic of 3.4%. Same-store sales growth is calculated by comparing the sales of stores for each year that have been in operation for at least 13 months with the sales of those during the previous year. The expansion achieved in the average ticket and same store sales figures reflects the rapid pace of expansion as well as stronger category management practices that enabled Oxxo to improve the mix of products within the store. This positive trend in same store sales growth can be seen across Mexico.

Gross Profit

Cost of sales for the first half of 2004 remained in line with sales growth reaching Ps. 7.488 billion compared to Ps. 6.153 billion for the first six months of 2003, an increase of 21.7%. As a result, gross profit expanded to 26.1% of total revenues as compared to 25.9% of total revenues for the first half of 2003.

Income from Operations

Administrative expenses increased 47.3% to Ps. 204 million during the first six months of 2004 compared to Ps. 138 million during the first six months of 2003. Approximately 80% of this increase resulted from expenses and amortization of investments associated with new information technology systems throughout the Oxxo chain that can no longer be capitalized, while the remaining 20% reflected the opening of two new regional administrative offices as well as other information technology-related expenses.

Selling expenses increased in line with revenues to Ps. 2.036 billion, or 20.1% of total revenues, during the first six months of 2004. Part of the increase in operating expenses reflected increased efforts to improve the overall product and service offering at our stores.

Income from operations (before deduction of management fees) increased 17.4% to Ps. 401 million during the first six months of 2004 compared to Ps. 341 million during the same period of 2003. The increase in operating income was due to increased revenues from expanded operations and reductions in selling expenses as a percentage of total revenues. Operating margin (before deduction of management fees) reached 4.0% of total sales for the first six months of 2004, in line with the 4.1% achieved in the first half of 2003. Income from operations (after deduction of management fees) amounted to Ps. 346 million during the first six months of 2004, representing 3.4% of total revenues and a decrease in operating margin of 0.3% compared to the same period of 2003.

FEMSA Empaques

Total Revenues

Total revenues increased by 9.2% to Ps. 3.885 billion during the first six months of 2004 compared to Ps. 3.559 billion during the same period of 2003. This increase was attributed to (1) a 15.4% increase in the sales volume of glass bottles, mainly due to strong demand from FEMSA Cerveza and Coca-Cola FEMSA; (2) a 17.4% increase in the sales volume of crown caps, mainly due to higher demand from U.S. customers; (3) a 3.1% increase in the sales volume of beverage cans, mainly to Coca-Cola FEMSA and FEMSA Cerveza; and (4) the depreciation of the Mexican peso, which offset a decrease in the average price of these products in U.S. dollar terms.

Gross Profit

Cost of sales reached Ps. 2.998 billion during the first six months of 2004 compared to Ps. 2.720 billion during the first six months of 2003. This increase of 10.2% was primarily due to the increase in sales volume of its principal products over the same period. Gross profit increased by 5.7% to Ps. 887 million during the first six months of 2004 compared to Ps. 839 million during the first six months of 2003. As a percentage of total revenues, the gross profit margin declined to 22.8% during the first six months of 2004 from 23.6% during the first six months of 2003, primarily reflecting a slight price decrease in real terms for FEMSA Empaques principal products. The real price decrease was due to competitive market conditions and a lower rate of Mexican peso devaluation compared to the same period of the previous year, which decreased FEMSA Empaques U.S. dollar-denominated revenues.

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Income from Operations

Operating expenses decreased 0.8% to Ps. 316 million during the first six months of 2004 compared to Ps. 319 million during the first six months of 2003. This slight decrease was due to a 2.2% reduction in administrative expenses as a result of a reduction in the administrative structure and a 0.3% reduction in selling expenses as a result of reduced shipping expenses related to the can export business and efficiencies in the distribution of our products in Mexico.

Income from operations (before deduction of management fees) increased by 9.6% to Ps. 571 million during the first six months of 2004. Operating margin was 14.7% of total revenues in the first six months of 2004 compared to 14.6% during the first six months of 2003. Income from operations (after management fees) amounted to Ps. 513 million during the first six months of 2004, a 10.0% increase from the same period of 2003, resulting in an operating margin of 13.2% of total revenues, a slight improvement from the first six months of 2003.

Results of Operations for Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

FEMSA Consolidated

Total Revenues

FEMSA s consolidated total revenues increased by 37.0% to Ps. 75.891 billion for the year ended December 31, 2003 from Ps. 55.395 billion for the year ended December 31, 2002. Consolidated net sales increased by 37.0% to Ps. 75.597 billion in 2003 from Ps. 55.176 billion in 2002 and represented 99.6% of total revenues in 2003 and in 2002.

The acquisition of Panamco and the inclusion by Coca-Cola FEMSA of the newly acquired territories for eight months of 2003 was the driving force behind our revenue increases. We also experienced revenue growth in each one of our other main subholding companies. FEMSA Cerveza increased its total sales volume by 3.2%, reaching 24.564 million hectoliters, resulting in an increase in FEMSA Cerveza s total revenues by 1.3% to Ps. 21.924 billion despite the adverse impact of a weak pricing environment. FEMSA Comercio had total revenue growth of 25.3% due to an increase of 582 net new Oxxo stores opening in 2003. FEMSA Empaques increased total revenues by 7.1% mostly as a direct result of an increase in demand for beverage cans as well as for refrigerators for the newly acquired Panamco territories.

Gross Profit

Consolidated gross profit increased by 31.6% to Ps. 36.520 billion in 2003 from Ps. 27.755 billion in 2002, primarily as a result of the inclusion by Coca-Cola FEMSA of the newly acquired territories for eight months of 2003. Gross margin decreased by 2.0% to 48.3% for 2003 compared to 50.3% for 2002. The downward pressure on margins was primarily due to higher raw material prices and the integration of the new Coca-Cola FEMSA operations. In addition, our U.S. dollar-linked variable cost of sales became more expensive on a real basis because of the depreciation of the Mexican peso in 2003.

Income from Operations

Our consolidated operating expenses (including management fees paid to Labatt) increased by 36.0% in 2003 to Ps. 24.436 billion from Ps. 17.964 billion in 2002. As a percentage of total revenues, consolidated operating expenses remained stable at 32.2% in 2003 versus 32.4% in 2002.

Consolidated administrative expenses increased by 17.9% to Ps. 5.740 billion in 2003 from Ps. 4.870 billion in 2002, primarily reflecting an increase of Ps. 818 million in the administrative expenses of Coca-Cola FEMSA as a consequence of the Panamco acquisition.

Consolidated sales expenses increased by 42.8% to Ps. 18.696 billion in 2003 from Ps. 13.094 billion in 2002, mainly reflecting the combination of a 54% increase of sales expenses of Coca-Cola FEMSA due to the Panamco acquisition, which explains most of the increase, and to a much lesser extent an increase of 26% in the sales expenses of FEMSA Comercio due to the aggressive expansion in the number of stores implemented during the year.

We incur various expenses related to the distribution of our products. We include these types of costs in the sales expenses line of our income statement. During 2003 and 2002, our distribution costs amounted to Ps. 4.848 billion and Ps. 4.092 billion, respectively, mainly due to the incorporation of Panamco. The exclusion of these charges from our cost of sales line may result in the amounts reported as gross profit not being comparable to other companies that may include all expenses related to their distribution network in cost of sales when computing gross profit (or an equivalent measure).

Consolidated income from operations increased by 23.4% reaching Ps. 12.084 billion for the full year 2003 from Ps. 9.791 billion in 2002. The consolidated operating margin decreased 1.8% to 15.9% of total revenues in 2003 as compared to 2002. This margin contraction was primarily due to the integration of the newly acquired Panamco territories which have a lower level of profitability than Coca-Cola FEMSA s original territories, and the increased contribution of the Oxxo retail chain in our consolidated financial results, which has lower gross profit margin. In addition to this, both FEMSA Cerveza and FEMSA Empaques recorded operating margin contractions reflecting a lower gross profit margin at both subsidiaries caused by lack of pricing increases and the impact of a weaker Mexican peso on the cost of U.S. dollar-denominated raw materials.

Some of our subsidiaries pay management fees to FEMSA in consideration for corporate services provided to such subsidiaries. Our subsidiaries payments of management fees are eliminated in consolidation and, thus, have no effect on our consolidated operating expense, with the exception of the management fee paid by FEMSA Cerveza to Labatt, which amounted to Ps. 126 million in 2003 compared to Ps. 119 million in 2002. Prior to 2003, the excess of the purchase price over the fair value of the net assets acquired in a business combination was considered goodwill. With the adoption of Bulletin C-8, Coca-Cola FEMSA considers this excess to relate to the rights to produce and distribute *Coca-Cola* trademark products, which are recorded as intangible assets with indefinite lives that are not amortized, but are periodically subject to an impairment test. Therefore, we no longer amortize the excess of the purchase price over the fair value of the net assets acquired, which we now consider to constitute rights to produce and distribute Coca-Cola trademark products, in connection with an acquisition of a Coca-Cola franchise.

Coca-Cola FEMSA

Total Revenues

Coca-Cola FEMSA s total revenues increased by 91.4% to Ps. 35.729 billion from Ps. 18.668 billion in 2002. Net sales increased by 91.6% to Ps. 35.487 billion in 2003, from Ps. 18.519 billion in 2002, as a result of the inclusion of sales from the newly acquired territories for eight months of 2003 as well as increases in sales in its previously existing territories in Mexico and Argentina.

Sales volumes increased to 1.450 billion unit cases for 2003. Most of Coca-Cola FEMSA s sales volume, approximately 56.8%, was attributable to the Mexican operations, which grew sales volume to 850.1 million unit cases during 2003 from 504.7 million unit cases in 2002. The sales growth in Mexico was primarily attributable to the inclusion of the newly acquired territories. In addition to this the following factors also attributed to our sales growth in Mexico (1) solid performance from new flavored brands including *Fresca pink grapefruit* and *Lift green apple*, (2) incremental sales volume in *Ciel* still water in a 5.0-liter presentation, particularly in central Mexico and (3) volume growth from the *Coca-Cola* brand.

Average unit price per case decreased by 18.1% to Ps. 24.46 in 2003 from Ps. 29.86 in 2002 due to the inclusion of the newly acquired territories, which had a higher sales volume of lower priced products relative to the original Coca-Cola FEMSA territories.

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Other operating revenues increased by 62.9% to Ps. 242.6 million in 2003, from Ps. 148.9 million in 2002. Other operating revenues mainly consist of sales to other bottlers pursuant to tolling arrangements in Argentina, revenues from sales of recyclable scrap to bottle suppliers and sales of point of sales materials for the fountain business.

Gross Profit

Coca-Cola FEMSA s cost of sales increased to Ps. 17.980 billion in 2003, from Ps. 8.681 billion in 2002, as a result of the inclusion of the newly acquired territories for eight months of 2003. As a percentage of total sales, cost of sales increased 3.8%, reflecting the higher costs of sales in the newly acquired territories mainly due to the different product mix and higher manufacturing costs. Coca-Cola FEMSA was also affected by the impact of the devaluation of the Mexican peso against the U.S. dollar as applied to raw materials with prices that are paid in or determined with reference to the U.S. dollar.

During 2003, Coca-Cola FEMSA s gross profit totaled Ps. 17.749 billion resulting in a gross margin of 49.68%. Mexico accounted for approximately 72.4% of Coca-Cola FEMSA s gross profit, totaling Ps. 12.845 billion in 2003. In Mexico, higher raw material prices, the effect of the devaluation of the Mexican peso versus the U.S. dollar on raw materials with prices payable in or determined with reference to the U.S. dollar and a softer economy and a lower disposable income, amplified by a migration to multi-serving presentations from individual size presentations, resulted in declining margins in 2003. Coca-Cola FEMSA s territories outside of Mexico have lower gross margins primarily due to the devaluation of their local currencies versus the U.S. dollar applied to their U.S. dollar-denominated expenses, in addition to higher manufacturing costs and different product mixes. In Central America, gross profit totaled Ps. 1.088 billion, approximately 6.1% of Coca-Cola FEMSA s gross profit, reaching a gross margin of 49.8% in 2003. In Argentina, Coca-Cola FEMSA was able to achieve a gross margin improvement of 2.6% as compared to 2002, resulting in a gross margin of 37.0% during 2003. This improvement was mainly driven by higher sales volume in more profitable products and an appreciation of the Argentine peso versus the U.S. dollar applied to its U.S. dollar-denominated raw materials and expenses.

Income from Operations

Coca-Cola FEMSA s operating expense was Ps. 11.039 billion in 2003, as a result of the inclusion of the newly acquired territories for eight months of 2003. As a percentage of total sales, operating expenses increased 2.4%, due to the standardization of marketing practices in the newly acquired territories and the fact that distribution costs in Coca-Cola FEMSA s new territories are higher than in its original territories. During 2003, in Mexico, Coca-Cola FEMSA eliminated Panamco s former headquarters in Mexico City and Miami, closed four plants out of 16, consolidated 29 distribution centers out of 142, introduced more than 73,000 new coolers into the market, and reconfigured pre-sale and distribution networks by reducing third party selling and distribution. Coca-Cola FEMSA implemented similar initiatives in its other territories as well. For example, it (1) closed 3 of 9 plants in Venezuela, (2) closed 1 of 2 plants in Panama, (3) reduced its manufacturing plants from 17 to 6 in Colombia, and (4) consolidated 1 of 4 plants in Brazil. The implementation of best practices and strong asset allocation efforts throughout its territories is an ongoing effort. However, during 2003, the potential cost savings from these efforts were more than offset by the incremental costs of the integration process.

Coca-Cola FEMSA incurs various expenses related to the distribution of its products. It includes these types of costs in the selling expenses line of its income statement. During 2003 and 2002, its distribution costs amounted to Ps. 2.804 billion and Ps. 2.099 billion, respectively. The exclusion of these charges from its cost of sales line may result in the amounts reported as gross profit not being comparable to other companies, which may include all expenses related to their distribution network in cost of sales when computing gross profit (or an equivalent measure).

In Mexico, income from operations totaled Ps. 5.634 billion in 2003, and represented approximately 84.0% of that income from operations. Its other territories, accounting for 16.0% of that income from operations, had

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much lower operating margins. In these territories, Coca-Cola FEMSA sees opportunities to develop a more effective returnable packaging base, new product alternatives and to improve execution practices. Total income from operations after amortization of goodwill grew to Ps. 6.710 billion in 2003, from Ps. 4.627 billion in 2002. Income from operations as a percentage of total revenues decreased 6.0% in 2003, from 24.8% to 18.8%, mainly as a result of the inclusion of its new territories, which have lower operating margins.

FEMSA Cerveza

Total Revenues

FEMSA Cerveza s net sales increased by 1.4% to Ps. 21.763 billion in 2003 from Ps. 21.453 billion in 2002. Other operating revenues, which consist mainly of sales of manufacturing by-products and sundries in retail locations owned by FEMSA Cerveza, totaled Ps. 161 million in 2003, 15.5% lower than in 2002. Total revenues for FEMSA Cerveza increased by 1.3% to Ps. 21.924 billion in 2003 from Ps. 21.642 billion in 2002. The increase in revenues in 2003 was primarily attributable to the net effect of the following: (1) a 3.3% and 1.4% increase in domestic and export volumes, respectively, and (2) a reduction of 2.4% in domestic revenue per hectoliter and a 9% increase in export revenue per hectoliter. Domestic revenues represented 93% of the total, while the remaining 7% came from exports, which is for the most part in line with the previous year.

Domestic sales volume increased in 2003 by 3.3% reaching 22.582 million hectoliters compared to 21.856 million hectoliters in 2002. This increase was due to (1) the absence of a price increase since early 2002, (2) a modest recovery in the Mexican economy, which experienced an estimated increase of 1.3% in Gross Domestic Product during the year and (3) successful promotions, particularly with the *Sol* and *Indio* brands. Our domestic revenue per hectoliter increased 2.4% in nominal terms due to a successful shift in our sales mix from returnable presentations towards more premium, higher profit margin presentations such as non-returnable bottles and cans.

Export sales volume increased by 1.4% in 2003 reaching 1.982 million hectoliters compared to 1.955 million hectoliters in 2002. This was primarily due to a 1.2% increase in sales volume to the United States, the destination for most of our exports, in particular, our *Tecate* and *Dos Equis* brands. The export revenue per hectoliter increased 9.0% in peso terms, mainly as a result of a depreciation in real terms of the Mexican peso versus the U.S. dollar in 2003 and a price increase in U.S. dollar terms effective at the end of 2002.

Gross Profit

FEMSA Cerveza s increase in cost of sales remained in line with revenue growth. Cost of sales increased to Ps. 9.425 billion for 2003 from Ps. 9.281 billion during 2002. FEMSA Cerveza s gross profit totaled Ps. 12.499 billion resulting in a gross margin of 57.4%, a slight decrease of 0.2% compared with the 2002 level of 57.6%. The margin was impacted by the currency effect due to an increase in U.S. dollar denominated costs, which represented approximately one-fourth of cost of sales, that was offset by: (1) better purchasing terms for raw materials, (2) headcount adjustments and (3) lower transportation costs from our breweries to the warehouses.

Income from Operations

FEMSA Cerveza s operating expenses increased by 2.0% to Ps. 8.522 billion in 2003, from Ps. 8.354 billion in 2002 and represented 38.9% of total revenues in 2003, compared to 38.6% of total revenues in 2002.

Administrative expenses increased by 3.1% to Ps. 2.333 billion in 2003, from Ps. 2.262 billion in 2002, reflecting mainly the start of the amortization of the ERP commercial module and its initial rollout.

Sales expenses increased by 1.6% to Ps. 6.189 billion in 2003, from Ps. 6.093 billion in 2002, primarily reflecting an increase in variable expenses that grew in line with our sales. At 28.2% of total revenues, sales expenses remained constant with the 2002 level of 28.2%.

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Our participation in affiliated companies dropped by 65.9% relative to the previous year, primarily reflecting a reduction in the profitability of Labatt USA due to increased marketing spending for our brands *Tecate* and *Dos Equis*.

FEMSA Cerveza s income from operations, before deduction of management fees paid to us and to Labatt, decreased by 0.7% to Ps. 3.977 billion in 2003 from Ps. 4.007 billion in 2002. This decrease reflected (1) lower gross profit margin, (2) new amortizations of ERP related expenses and (3) lower profitability at Labatt USA. In 2003, FEMSA Cerveza s operating margin before deduction of management fees decreased by 0.4% to 18.1% of total revenues. Management fees amounted to Ps. 420 million and represented 1.9% of total revenues in 2003, compared to Ps. 407 million recorded in 2002, which represented 1.9% of total revenues in 2002. FEMSA Cerveza s income from operations after deduction of management fees amounted to Ps. 3.556 billion, 1.2% less than in 2002.

FEMSA Comercio

Total Revenues

Total revenues increased by 25.3% to Ps. 16.601 billion in 2003, from Ps. 13.247 billion during 2002. The increase of total revenues of FEMSA Comercio was mainly a result of the aggressive expansion of the Oxxo convenience store chain, which added 582 net new Oxxo stores during the year. The Oxxo chain brought the total number of stores nationwide up to 2,798, an increase of 26.3% from 2002. This increase is an average of a 30% increase in the number of stores in the central and southern regions of the country and a 24% increase in the north of Mexico.

Same-store sales of Oxxo increased 8.2% in 2003 reflecting an increase in the average consumer purchase of 1.7% and an increase in store traffic of 6.5%. This increase reflects the rapid expansion as well as stronger category management practices, such as tailoring the product offering at the store depending on its geographical location. This same-store sales calculation is different than what we have historically presented as Sales of Comparative Mature Stores, which reflected the variation in average sales of Oxxo stores that were then currently in operation for 18 consecutive months. Under our new methodology, we now calculate same-store sales by comparing the sales of stores for each year that have been in operation for at least 13 months with the sales of those same stores during the previous year. This change in our methodology falls in line with industry standards of how same-store sales are calculated, is reflected in this annual report and will be our practice going forward.

Gross Profit

Cost of sales remained in line with revenue growth at Ps. 12.199 billion in 2003, from Ps. 9.739 billion in 2002, an increase of 25.3%. As a result, our gross margin was also stable relative to our growth in total sales at Ps. 4.402 billion in 2003, compared to Ps. 3.508 billion in 2002.

Income from Operations

Operating expenses increased by 24.8% to Ps. 3.621 billion in 2003, from Ps. 2.902 billion in 2002. These expenses remained practically flat as a percentage of total revenues at 21.8% in 2003 and 21.9% in 2002. Administrative expenses increased 12.1% to Ps. 285 million during 2003, from Ps. 254 million in 2002, as we adjusted our management structure to support our expanded operations. In particular, we opened two new regional administrative offices and now have 37 offices nationwide. Sales expenses increased 26.0% to Ps. 3.336 billion, compared to Ps. 2.647 billion in 2002. At 20.1% of our total revenues, this figure remained in line with 2002. This increase was due to the amortization of investments in technology and systems, as well as investments in distribution and workforce as we plan to strengthen the expansion of Oxxo s business model.

FEMSA Comercio s income from operations, before deduction of management fees, increased by 28.9% to Ps. 781 million in 2003, from Ps. 606 million in 2002. This increase was in line with sales growth and

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contributed to a stable operating margin of 4.7% for 2003, slightly above the 4.6% operating margin achieved in 2002. In 2003, management fees amounted to Ps. 87 million or 0.5% of total revenues compared to Ps. 99 million or 0.7% of total revenues in 2002. FEMSA Comercio s operating margin after deduction of management fees increased 0.4% to 4.2% of total revenues in 2003.

FEMSA Empaques

Total Revenues

FEMSA Empaques total revenues increased by 7.1% to Ps. 7.352 billion in 2003, from Ps. 6.862 billion in 2002. This increase is primarily due to (1) a 7.7% increase in the sales volume of beverage cans, mainly to Coca-Cola FEMSA and FEMSA Cerveza, (2) the currency effect of the depreciation of the Mexican peso, which offset a small decrease in the average price of these products in U.S. dollars, (3) a surge in the sales volume of refrigerators shipped to the former Panamco territories and (4) the production of plastic cases for a new 2.5 liter bottle for Coca-Cola FEMSA.

Gross Profit

FEMSA Empaques cost of sales reached Ps. 5.639 billion during 2003 compared to Ps. 5.193 billion in 2002, resulting in a gross margin of 23.4% in 2003 compared to 24.4% in 2002. This decrease in gross margin is primarily due to (1) an increase in the cost of U.S. dollar-denominated raw materials, (2) an increase in depreciation expenses related to the molds used to produce the cases for 2.5 liter plastic bottles and the replacement of one of the glass furnaces replaced early 2003 and (3) higher energy costs.

Income from Operations

Operating expenses decreased by 1.6% to Ps. 614 million in 2003 from Ps. 624 million in 2002 and decreased only 70 basis points as a percentage of total revenues to 8.4% in 2003. Administrative expenses decreased by 8.2% to Ps. 177 million in 2003 compared to Ps. 193 million in 2002, due to a decrease in the personnel level, along with the optimization of certain administrative processes. Sales expenses increased 1.4% to Ps. 437 million in 2003 compared to Ps. 431 million in 2002, mainly as a result of higher freight costs due to the increased sales volume of refrigerators and plastic cases.

Income from operations, before deduction of management fees, increased by 5.1% to Ps. 1.098 billion in 2003 compared to Ps. 1.045 billion in 2002. This resulted in an operating margin, before reduction of management fees, of 14.9% of total revenues, 0.3% less than in 2002. In 2003, management fees amounted to Ps. 111 million, or 1.5% of total revenues, compared to Ps. 103 million recorded in 2002, 1.5% of total revenues. FEMSA Empaques operating margin, after deduction of management fees, was 13.4% in 2003, compared to 13.7% in 2002.

FEMSA Consolidated Net Income

Integral Cost of Financing

Net interest expense during 2003 amounted to Ps. 1.845 billion compared to Ps. 478 million in 2002, resulting primarily from the interest expense related to new debt issued by Coca-Cola FEMSA in order to finance the acquisition of Panamco.

Foreign exchange gain (loss) during 2003 amounted to a loss of Ps. 2.532 billion compared to a loss of Ps. 293 million in 2002. This amount primarily reflects our higher U.S. dollar-denominated liabilities resulting from the new debt incurred for the acquisition of Panamco and a 3.3% depreciation in real terms of the Mexican peso versus the U.S. dollar during the year.

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Monetary position gain (loss) during 2003 amounted to a gain of Ps. 954 million, compared to a gain of Ps. 398 million during 2002. Most of the additional gain is attributable to the inflation rate over the liabilities attained from the various territories in our recent acquisition. To determine changes in monetary position, we reflect adjustments for inflation over the year such that monetary assets and liabilities obtained or disposed of during the year are not eroded.

Tax recognized during 2003 amounted to Ps. 3.378 billion, which includes income tax, tax on assets, and employee profit sharing compared to Ps. 3.764 billion in 2002. The effective tax rate for the year was 42.0% and compares favorably with the 44.0% effective tax rate of 2002.

Net Income

Our consolidated net income decreased 2.8% to Ps. 4.657 billion from Ps. 4.791 billion for 2002, mainly attributable to a foreign exchange loss. Consolidated net majority income amounted to Ps. 3.093 billion for the year 2003, which is 5% higher than 2002. Net majority income per FEMSA Unit was Ps. 2.919 for 2003. Net majority income per FEMSA ADS, considering an exchange rate of Ps. 11.2350 per dollar, was 2.598 U.S. dollars for 2003.

Results of Operations for Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

FEMSA Consolidated

Total Revenues

FEMSA s consolidated total revenues increased by 5.6% to Ps. 55.395 billion for the year ended December 31, 2002, from Ps. 52.465 billion for the year ended December 31, 2001. Consolidated net sales increased by 5.5% to Ps. 55.176 billion in 2002, from Ps. 52.301 billion in 2001 and represented 99.6% of total revenues in 2002, compared to 99.7% in 2001. FEMSA Comercio, whose total revenue increased 18.7%, contributed significantly to the growth in consolidated revenue with the opening of 437 net new Oxxo stores, and Coca-Cola FEMSA, whose total revenues grew 5.0%, was also a significant contributing factor. FEMSA Cerveza faced weak demand in the northern markets throughout the year, but posted revenue growth of 0.5% aided by steady demand and successful performance in the central and southern markets. FEMSA Empaques capitalized on strong demand for its main product lines in the second half of the year and closed the year with 0.3% growth in revenue.

Gross Profit

Our consolidated gross profit increased by 5.2% to Ps. 27.755 billion in 2002 from Ps. 26.395 billion in 2001. As gross profit increased at a slightly lower rate than net sales, our consolidated gross profit margin was 50.3%, a decrease of 0.2% over 2001. In addition, our U.S. dollar-linked variable cost of sales became more expensive on a real basis because of the depreciation of the Mexican peso in the second half of 2002. The decrease in gross profit margin was only partially offset by operational efficiencies achieved in our manufacturing facilities, such as increased productivity and strategic procurement.

Income from Operations

Our consolidated operating expenses (including goodwill amortization and management fees paid to Labatt) increased by 2.5% in 2002 to Ps. 17.964 billion, from Ps. 17.527 billion in 2001. As a percentage of total revenues, consolidated operating expenses decreased by 100 basis points to 32.4% in 2002.

Consolidated administrative expenses increased by 1.2% to Ps. 4.870 billion in 2002 from Ps. 4.814 billion, primarily reflecting the net effect of the following:

- increases in administrative expenses at Coca-Cola FEMSA, mainly reflecting investments in preparation for a large acquisition, such as administrative consultants and expanding managerial staff, plus certain system upgrades in Mexico;

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slight increases in administrative expenses at FEMSA Comercio, related to its expansion, and at FEMSA Empaques, reflecting investments in ERP systems; and

slight decrease in FEMSA Cerveza s administrative expenses as a result of efforts to contain expenses.

Some of our subsidiaries pay management fees to FEMSA in consideration for corporate services provided to such subsidiaries. Our subsidiaries payments of management fees are eliminated in consolidation and thus have no effect on our consolidated operating expense, with the exception of the management fee paid by FEMSA Cerveza to Labatt, which amounted to Ps. 122 million in 2002 compared to Ps. 129 million in 2001. Goodwill amortization corresponding to Coca-Cola FEMSA amounted to Ps. 40 million in 2002 compared to Ps. 106 million in 2001, reflecting the goodwill impairment related to Coca-Cola FEMSA Buenos Aires.

Consolidated sales expenses increased by 3.0% to Ps. 13.094 billion in 2002 from Ps. 12.713 billion in 2001, mainly reflecting the combination of:

growth in FEMSA Comercio s sales expenses as the chain expands at a rapid pace, requiring a proportional operating expense infrastructure and a larger infrastructure required to manage the expansion of the chain; and

reduction in Coca-Cola FEMSA s sales expenses reflecting expense containment measures in Mexico and lower marketing expenses and payroll optimization in Argentina.

We incur various expenses related to the distribution of our products. We include these types of costs in the sales expenses line of our income statement. During 2002 and 2001, our distribution costs amounted to Ps. 4.092 billion and Ps. 4.013 billion, respectively. The exclusion of these charges from our cost of sales line may result in the amounts reported as gross profit not being comparable to other companies, which may include all expenses related to their distribution network in cost of sales when computing gross profit (or an equivalent measure).

All of our principal businesses reported increases in their respective income from operations, which produced growth in consolidated income from operations for the full year 2002 of 11.0% to Ps. 9.791 billion from Ps. 8.868 billion in 2001. Our consolidated operating margin increased 0.8% to 17.7% of consolidated total revenues. Coca-Cola FEMSA was our primary driver of profitability growth, posting a 14.0% increase in its income from operations. FEMSA Cerveza and FEMSA Comercio each generated similar amounts of incremental operating profit in 2002, contributing to the consolidated result with growth rates of 5.3% and 44.3%, respectively, in their income from operations (before management fees).

Coca-Cola FEMSA

Total Revenues

Coca-Cola FEMSA recorded net sales of Ps. 18.519 billion in 2002, a 5.0% increase over net sales of Ps. 17.637 billion in 2001. Revenue growth was primarily attributable to strong volume growth and a steady improvement in the average price per unit case in Mexico, which more than offset the volume contraction observed in Argentina. Other revenues, which consist mainly of income from toll production agreements with a neighboring Coca-Cola Bottler in Argentina, whereby Coca-Cola FEMSA has been producing *Coca-Cola* brand beverages for sale in its territories, amounted to Ps. 149 million in 2002, 10.1% higher than in 2001. Total revenues for Coca-Cola FEMSA increased by 5.0% to Ps. 18.668 billion in 2002 from Ps. 17.773 billion in 2001.

Coca-Cola FEMSA recorded volume growth of 5.6% to 505 million unit cases in Mexico and an improvement in the real revenue per unit case of 1.1% during 2002. These improvements resulted in revenue growth of 6.7% to Ps. 16.843 billion in Mexico for 2002. We believe that the principal volume drivers in Mexico in 2002 were:

- strong performance of Mundet beverages and still water, particularly the new 5-liter jug of Ciel;

continued expansion in the flavor and new categories segments with the introduction of new and exciting products, such as *Beat*, *Mundet*, *Mickey Adventuras*, *Kin Light* and *Nestea*; and

modest volume growth in the core cola portfolio.

In Argentina, Coca-Cola FEMSA operated in a very depressed economic environment in 2002. Volume decreased by 11.0% to 116 million unit cases in a year that started off with a severe economic crisis that hampered demand for our products. Coca-Cola FEMSA responded to this challenging market with the objectives of defending the brand equity of its brands, regaining market share from B Brands, extracting positive cash flow and performing overall damage containment. As the year progressed, the commercial strategies implemented by Coca-Cola FEMSA yielded a more favorable outcome, closing the year with volume growth in the fourth quarter of 2002. The principal strategies implemented were:

shifting the mix back to returnable packages, which jumped from 5.8% of the mix in 2001 to 12.4% in 2002, led by the 1.25-liter glass returnable presentation of *Coca-Cola*, *Fanta* and *Sprite*; and

continuing to promote the core *Coca-Cola* brand while further developing the value protection brands (*Taí* and *Crush*).

Together these strategies allowed Coca-Cola FEMSA to defend its pricing structure and produced an increase in average revenue per unit case of 2.1% in 2002 compared to 2001. The reduction in total revenue was limited to 8.2%.

Gross Profit

Coca-Cola FEMSA s cost of sales increased by 5.1% to Ps. 8.681 billion in 2002, from Ps. 8.256 billion in 2001, and its gross profit increased by 4.9% to Ps. 9.987 billion, from Ps. 9.517 billion in 2001. Gross margin expanded by 0.1% to 53.9% in 2002. Coca-Cola FEMSA s Mexican operations experienced a gross margin expansion of 0.9% for the full year 2002, resulting mainly from solid revenue growth characterized by greater fixed cost absorption as a result of growth in volumes. The Argentine operation s gross margin dropped 9.8% to 36.0% of net sales for the full year 2002, due to lower absorption of fixed costs as a result of lower volumes, higher prices of raw materials and a larger depreciation charge in Argentina in connection with the reevaluation of fixed assets of foreign origin as a consequence of the devaluation of the Argentine peso.

Income from Operations

Operating expenses for 2002 decreased by 0.6% to Ps. 5.320 billion. As a percentage of total revenues, operating expenses decreased 1.6% to 28.5% in 2002. Administrative expenses in Mexico remained flat as a proportion of total revenues when compared to 2001; in absolute terms, these expenses increased 7.9% mainly reflecting investments in preparation for a large acquisition, such as systems upgrades, administrative consultants and reinforcing managerial staff. Administrative expenses for Argentina grew 17.2% relative to 2001, due mainly to higher depreciation in local currency in connection with a reevaluation of our foreign currency-denominated assets. Selling expenses for Coca-Cola FEMSA in Mexico increased by 0.2% in 2002, which represents a reduction of 1.3% relative to total revenues, reflecting improvements in operations in Mexico. Selling expenses also decreased in Argentina in 2002, as a result of lower marketing expenses and headcount reduction combined with adjusted salaries.

Until 2002, under Mexican GAAP, goodwill was amortized gradually in the income statement through a straight-line method for a 20-year period. Prior to 2003, in connection with the Coca-Cola FEMSA Buenos Aires acquisition, the excess of the purchase price over the fair values of the net assets acquired, which we now consider to be rights to produce and distribute Coca-Cola trademark products, was considered to be goodwill. Goodwill amortization for 2002 was Ps. 40.6 million compared to Ps. 108.3 million for 2001, reflecting impairment in goodwill as a result of the difficult economic situation in Argentina. In July 2002, Coca-Cola

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FEMSA recorded an impairment of Ps. 457 million. Coca-Cola FEMSA s income from operations after amortization of goodwill increased by 14.0% to Ps. 4.627 billion in 2002, from Ps. 4.057 billion in 2001, reflecting the net effect of the following:

- an increase of 15.5% in income from operations of Coca-Cola FEMSA s Mexican operations; and
- a decline of 66.6% in income from operations of Coca-Cola FEMSA s Argentine operations.

Coca-Cola FEMSA s operating margin increased by 2.0% to 24.8% of total revenues in 2002 from 22.8% of total revenues in 2001.

FEMSA Cerveza

Total Revenues

FEMSA Cerveza s net sales increased by 0.4% to Ps. 21.453 billion in 2002 from Ps. 21.367 billion in 2001. Other revenues, which consist mainly of income from the sale of manufacturing byproducts and sundries in retail locations owned by FEMSA Cerveza, totaled Ps. 189 million in 2002, 20.2% higher than in 2001. Total revenues for FEMSA Cerveza increased by 0.5% to Ps. 21.642 billion in 2002, from Ps. 21.529 billion in 2001. The increase in revenues in 2002 was primarily attributable to the net effect of the following:

- 0.2% decrease in total sales volume; and
- 0.6% improvement in real total revenue per hectoliter sold for the full year 2002, derived primarily from a 7.0% nominal increase in the domestic price of beer (on a weighted average basis) implemented during the first quarter of 2002. FEMSA Cerveza s average revenue per hectoliter in 2002 was Ps. 901.0, including domestic and export sales.

Domestic volume declined by 0.7% to 21.856 million hectoliters, as FEMSA Cerveza continued to experience the adverse effects of the deterioration in disposable income in the northern region of Mexico. FEMSA Cerveza has greater exposure to the markets in the northern regions, where it sells approximately 56% of its domestic volume. Over the past two years we have observed a progressive deterioration in the economy that has disproportionately affected the northwest region, as its higher concentration of border towns makes it more susceptible to the U.S. economy. The central and southern regions have been more protected from this economic slowdown. For example, we estimate that employment in the manufacturing and retail industries in the north declined approximately 4.6% in 2002, compared to an estimated decline of 0.3% and 0.4% in the central and southern regions, respectively. At the same time, our sales volumes in the north declined 2.9%, while those in the rest of the country grew by approximately 1.9%. Another factor that materially affected our ability to sell more of our beer products in the north was a higher presence of beer imports, particularly during the period of Mexican peso appreciation against the U.S. dollar in the first half of 2002. On a quarterly basis, domestic volume trends were as follows: a 2.2% volume decline in the first quarter, marginal growth of 0.1% and 0.3% in the second and third quarters, respectively, and a decline of 1.3% in the fourth quarter of 2002, all relative to the comparable quarters of 2001. Pricing in the domestic market increased by 0.9% in real terms, averaging Ps. 921 per hectoliter in 2002.

Export volume grew by 6.1% to 1.955 million hectoliters in 2002 and represented 8.2% of the total volume sold by FEMSA Cerveza. Volume sold to North America, FEMSA Cerveza s main export market, increased by 8.2% and accounted for 92.2% of FEMSA Cerveza s export volume. Export volume to Europe and Asia declined 17.6% and 25.7%, respectively, compared to 2001 and accounted for 2.9% and 2.8%, respectively, of total export sales. Average pricing in the export market decreased by 2.2% in real terms, averaging Ps. 679 per hectoliter in 2002. Export revenues increased by 3.7% to Ps. 1.327 billion in 2002 and in U.S. dollar terms, export revenues increased by 3.7% to US$ 127 million.

In 2002, we adopted EITF Consensus No. 01-9, Accounting for Consideration Given By a Vendor to a Customer or Reseller of the Vendor s Products, issued by the FASB. This consensus requires certain sales expenses incurred by FEMSA Cerveza previously classified as operating expenses to be reclassified as deductions from revenue. Amortizations that were previously classified as sales expenses in the amount of Ps. 885 million for 2001 were reclassified as a reduction in net sales in accordance with this EITF consensus. Correspondingly, during 2002 we classified Ps. 990 million as a reduction in net sales.

Gross Profit

FEMSA Cerveza s cost of sales for 2002 remained flat at Ps. 9.281 billion compared to 2001. FEMSA Cerveza s gross profit increased by 1.0% to Ps. 12.361 billion in 2002, from Ps. 12.244 billion in 2001. As a percentage of net sales, gross margin increased by 30 basis points to 57.6% in 2002, reflecting enhancements in manufacturing productivity and savings in the plant-to-warehouse logistics. Cost trends for FEMSA Cerveza s principal raw materials (malting barley, hops, aluminum cans and glass bottles) remained relatively stable throughout 2002. The favorable effect of the appreciation of the Mexican peso against the U.S. dollar on U.S. dollar-denominated costs during the first half of the year was more than offset by a depreciation of the Mexican peso against the U.S. dollar during the latter half of 2002.

Income from Operations

FEMSA Cerveza s operating expenses decreased by 0.4% to Ps. 8.354 billion in 2002 from Ps. 8.390 billion in 2001 and represented 38.6% of total revenues in 2002, compared to 39.0% of total revenues in 2001. Administrative expenses decreased by 0.7% to Ps. 2.262 billion in 2002 from Ps. 2.277 billion in 2001, reflecting continued expense containment practices across the organization and an average headcount reduction. Selling expenses decreased by 0.3% to Ps. 6.093 billion in 2002 and represented 28.2% of total revenues. Our success in containing sales expenses and generating operational savings resulted from the following:

- warehouse rationalization across all markets;
- pre-sale logistics, which by separating the sales and delivery functions have reduced significantly unsold load in delivery trucks; and
- improved resource utilization, which resulted in a net reduction of sales routes.

FEMSA Cerveza has continued to invest in the development of its new competitive business model, which has entailed budgeted expenditures in information technology platforms (including the ERP system), acquisition of third party distributorships, high-impact marketing campaigns and deployment of commercial equipment (such as refrigerators and point-of-sale displays).

FEMSA Cerveza s income from operations, before deduction of management fees paid to us and to Labatt, increased by 4.0% to Ps. 4.007 billion in 2002 over Ps. 3.854 recorded in 2001. In 2002, FEMSA Cerveza s operating margin before deduction of management fees increased 0.6% to 18.5% of total revenues. Management fees amounted to Ps. 407 million and represented 1.9% of total revenues in 2002 compared to Ps. 430 million recorded in 2001, which represented 2.0% of total revenues in 2001. FEMSA Cerveza s income from operations after deduction of management fees amounted to Ps. 3.600 billion, 5.1% more than in 2001.

FEMSA Comercio

Total Revenues

FEMSA Comercio s total revenues increased by 18.7% in 2002 to Ps. 13.247 billion, from Ps. 11.160 billion in 2001. The increase of total revenues of FEMSA Comercio was mainly a result of the aggressive expansion of the Oxxo convenience store chain, which added 437 net new stores during the year. We believe that the strong revenue growth rate of the Oxxo chain is primarily attributable to:

site scouting capabilities;

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- nationwide presence;
- efficient store setup model; and
- aggressive expansion and saturation business plan.

The Oxxo chain brought the total number of stores up to 2,216 by year-end 2002. As the chain grows, we have discovered new market opportunities in urban centers with high pedestrian traffic, such as hospitals and convention centers, and are increasingly exploiting the convenience store/gasoline station format. Same-store sales increased by 6.0% with respect to 2001. Same-store sales in our northwestern markets which have the highest border town concentration performed weakly in 2002. In contrast, the central and southern regions of the country have experienced significant same-stores sales growth during 2002. Growth in the northwest was affected by:

- economic sluggishness characterized by high rates of unemployment;
- the strength of the peso during the first semester of 2002, which induced consumers to purchase sundries across the border in U.S. territory; and
- high differentials in the price of gasoline between Mexico and the U.S. that caused Mexicans to buy gasoline and therefore convenience store products in the U.S. (Mexico being materially more expensive until corrective measures were taken in major border towns in December 2002).

Average monthly traffic per store (within the same-store sample) increased by 4.7% and the average sale per customer decreased by 1.3% during the full year 2002. We believe that these increases are mainly attributable to:

- FEMSA Comercio s strategy of competitively pricing traffic-generating products;
- improvement in the value proposition to Oxxo s customers, including cross promotions, product introductions, and store enhancements; and
- Oxxo becoming a reliable payment center where our customers can pay most home utilities in one stop.

Gross Profit

FEMSA Comercio recorded gross profit of Ps. 3.508 billion for the full year 2002, a 22.4% gain over the Ps. 2.867 billion recorded in 2001. Gross margin improved 0.8% to 26.5% of net sales, as compared to 25.7% for 2001, as the additional scale has also allowed us to establish strategic alliances with some of our suppliers and thereby reduce costs. In addition, our successful category management execution and our growing ability to work jointly with our supplier partners to design differentiated assortment, pricing and promotions have contributed to gross margin expansion.

Income from Operations

Operating expenses increased by 18.7% to Ps. 2.902 billion in 2002, from Ps. 2.445 billion in 2001 and remained flat as a percentage of total revenues at 21.9% in both 2002 and 2001. Administrative expenses increased by only 5.4% to Ps. 254 million, as the increased costs associated with expansion were mitigated by higher absorption of fixed administrative costs as more stores were opened in cities where there is already an Oxxo administrative infrastructure. Selling expenses increased 20.1% to Ps. 2.647 billion, slightly above total revenue growth, reflecting higher expenditures associated with the infrastructure required to manage the expansion of the chain. FEMSA Comercio recorded income from operations, before deduction of management fees, of Ps. 606 million in 2002, an increase of 44.3% from the Ps. 420 million recorded in 2001. FEMSA Comercio s operating margin before management fees grew 0.8% to 4.6% of total revenues in 2002 from 3.8% in 2001. In 2002, management fees amounted to Ps. 99 million or 0.7% of total revenues compared to Ps. 111 million or 1.0% of total revenues in 2001. FEMSA Comercio s operating margin after deduction of management fees increased by 1.0% to 3.8% of total revenues in 2002.

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FEMSA Empaques

Total Revenues

FEMSA Empaques total revenues increased 0.3% to Ps. 6.862 billion in 2002 from Ps. 6.840 billion in 2001, which was mainly attributable to a surge in demand in beverage cans and glass bottles coupled with the favorable effect of the weaker Mexican peso on our U.S. dollar revenues in the second half of the year. These increases offset slower demand for our packaging products in the first six months of 2002. For the full year, average capacity utilization was close to full in all of our main product lines.

Beverage can volumes reversed the weakness observed during 2001 by posting a growth of 6.8% in sales volume to 3.000 billion can units in 2002. In the second half of the year, the beverage can unit experienced increased demand from its main commercial partners domestically and abroad: FEMSA Cerveza, Coca-Cola FEMSA and Ball. We met this demand by reducing our sales to smaller domestic third party clients. Average real prices for beverage cans, which are quoted in U.S. dollars, decreased by approximately 0.6%, following a multi-year trend of convergence with international prices for these products.

Glass bottle volumes grew a solid 8.4% to 1.053 billion bottle units in 2002, while Mexican peso-denominated prices decreased 1.4%. FEMSA Empaques has encountered very high demand for its glass products domestically, since there is currently almost no excess capacity in the industry. Coca-Cola FEMSA purchased a larger number of eight ounce non-returnable glass *Coca-Cola* contour bottles. Supply of internal clients rose from 68.4% in 2001 to 89.2% in 2002. FEMSA Empaques commenced an inventory buildup during the fourth quarter of 2002 in preparation for the scheduled replacement of one of its glass furnaces in the first quarter of 2003, which involved approximately 85 days of inactivity.

Sales volumes for crown caps increased 1.8% in 2002 despite the decline in demand for crown caps in the domestic market, reflecting FEMSA Empaques success in the export markets, particularly in the North American market, where FEMSA Empaques is a major crown cap supplier for Labatt, Miller Brewing Company and Coors Brewing Company. FEMSA Empaques increased its crown cap export ratio from 51% in 2001 to a record 55% in 2002.

Export revenues increased by 12.2% to Ps. 749 million and represented 10.9% of net sales in 2002. In U.S. dollar terms, export revenues increased by 12.4% to US$ 71.7 million.

Gross Profit

FEMSA Empaques cost of sales decreased by 1.3% to Ps. 5.193 billion in 2002 from Ps. 5.259 billion in 2001, mainly due to the following factors:

- efficiencies achieved in the manufacturing lines that resulted in less spoilage and lower headcount;

consistency in the average contracted price of steel sheets; and

slight declines in the average price for bulk aluminum and ancillary raw materials.

Gross profit increased by 5.6% to Ps. 1.669 billion in 2002 from Ps. 1.581 billion in 2001, resulting in a gross margin expansion of 1.3% to 24.4% of net sales in 2002, as compared to 23.1% in 2001. Improvement in gross profit is closely related to exchange rate fluctuations: as the Mexican peso depreciated against the U.S. dollar towards the end of the year, U.S. dollar-denominated income for metallic products increased at a faster rate than costs, which have significant Mexican peso-denominated components. FEMSA Empaques is gradually recovering its long-term gross margin level, which has reached as high as 25.4% in the last five years, by means of implementing high productivity measures in the manufacturing plants such as the elimination of line personnel and middle management and application of ERP systems.

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Income from Operations

Operating expenses increased by 6.5% to Ps. 624 million in 2002 from Ps. 586 million in 2001 and increased only 0.5% as a percentage of total revenues to 9.1% in 2002. For the full year 2002, FEMSA Empaques recorded parallel increases in sales expenses and administrative expenses of 7.0% and 5.5%, respectively. The increase in sales expenses is mainly attributable to higher shipment costs. The increase in administrative expenses is mainly attributable to the one-time implementation costs of ERP modules in Famosa.

Income from operations before deduction of management fees increased by 5.0% to Ps. 1.045 billion in 2002, from Ps. 995 million for 2001, primarily reflecting the growth in gross profit. FEMSA Empaques recorded an operating margin before deduction of management fees of 15.2% in 2002, compared to a 14.5% margin recorded in 2001. In 2002, management fees amounted to Ps. 103 million, or 1.5% of total revenues, compared to Ps. 105 million recorded in 2001, also 1.5% of total revenues. FEMSA Empaques operating margin after deduction of management fees was 13.7% in 2002 compared to 13.0% in 2001. Operating margin was significantly affected in the first quarter of 2002, under a considerably strong Mexican peso scenario, but rebounded to record levels in the second and third quarters, as the Mexican peso depreciated.

FEMSA Consolidated Net Income

Our consolidated net income decreased by 8.1% to Ps. 4.791 billion in 2002, from Ps. 5.215 billion recorded in 2001. The decrease in net income recorded for the full year 2002 resulted from the net effect of:

- an 11.0% increase in consolidated income from operations;
- the write-off of a portion of our goodwill related to the acquisition of Coca-Cola FEMSA Buenos Aires;
- a significant increase in the consolidated integral result of financing loss, primarily in connection with the devaluation of the Mexican peso against the U.S. dollar in the second half of the year; and
- a larger tax provision.

Goodwill

In view of the continued deterioration and uncertainty in Argentine economic conditions, we decided to take a more conservative approach in the valuation of the goodwill related to our investments in that country. Therefore, in the third quarter we wrote down Ps. 457 million related to the acquisition of the territories of Coca-Cola FEMSA Buenos Aires. In view of the prevailing volatility of the Argentine currency, we also decided to take a conservative approach and stop considering our investment in Coca-Cola FEMSA Buenos Aires as a hedge for the U.S. dollar-denominated liabilities incurred in connection to this acquisition, thereby affecting the integral cost of financing for 2002 in the foreign exchange and monetary position calculations. These adjustments were non-cash.

Integral Cost of Financing

In the twelve months ended December 31, 2002, we recorded a consolidated integral cost of financing of Ps. 373 million, compared to a consolidated integral cost of financing of Ps. 274 million for the comparable period in 2001. In 2002, consolidated net financial expense decreased by 2.0% to Ps. 478 million as compared to Ps. 488 million in 2001. Consolidated interest expense decreased by 4.3% to Ps. 943 million compared to 2001, mainly attributable to lower average real rates for our liabilities, although our average gross liabilities increased by 3.4% in 2002 and the U.S. dollar portion was subsequently affected by the devaluation of the peso against the dollar that occurred in the second half of the year. This was partially compensated by the reduction in consolidated interest income, which decreased by 6.4% to Ps. 465 million, reflecting the net effect of lower interest rates earned on our investments relative to the year 2001 and a larger average cash position in Mexican pesos. As of December 31, 2002, our weighted average cost of debt was 6.9%, approximately 0.9% lower than the weighted average cost of debt as of December 31, 2001.

For the year 2002, we recorded a consolidated foreign exchange loss of Ps. 293 million compared to a foreign exchange gain of Ps. 256 million for the year 2001, primarily reflecting:

- the effect of the depreciation of the Mexican peso against the U.S. dollar, which totaled Ps. 1.28 per U.S. dollar in the year, on our net dollar liabilities in Mexico, compared to an appreciation of Ps. 43 cents on higher net U.S. dollar liabilities observed in 2001; and

- the depreciation of the Argentine peso against the U.S. dollar on our net U.S. dollar assets in Argentina, which had a positive effect on the foreign exchange variation during 2002.

The gain on monetary position for the year 2002 amounted to Ps. 398 million, compared to a loss of Ps. 42 million in 2001. This gain was mainly generated as a result of the inflation rate for the twelve months in Argentina over the debt incurred in connection with the acquisition of Coca-Cola FEMSA Buenos Aires. The Argentine inflation rate for 2002 was 41.2%. It should be noted that the Argentine goodwill impairment, as explained above, had an impact on the foreign exchange variation and monetary position lines.

Other Expenses

Our consolidated other expenses for the year 2002 amounted to Ps. 950 million, consisting mainly of the aforementioned impairment of a portion of the goodwill on our investments in Argentina charged in the third quarter, plus severance payments and asset write-offs.

Income Tax, Tax on Assets, and Employee Profit Sharing

Our consolidated income before income tax, tax on assets and employee profit sharing increased by 2.9% to Ps. 8.555 billion in 2002 from Ps. 8.314 billion in 2001, primarily reflecting a larger consolidated integral result of financing loss. We recognized consolidated income tax, tax on assets and employee profit sharing of Ps. 3.764 billion in 2002, an increase of 22.6% over the Ps. 3.069 billion in 2001. This increase was primarily a consequence of an increase of 24.8% in our income tax, largely resulting from a deferred tax benefit realized in 2001 as a result of a reduction in the Mexican statutory income tax rate, the increase in non-deductible expenses generated in the course of business and the impairment to goodwill generated by the acquisition of Coca-Cola FEMSA Buenos Aires. The combined effective tax rate for 2002 was 44.0%.

Net Income

Our consolidated net income decreased by 8.1% amounting to Ps. 4.791 billion for 2002 compared with Ps. 5.215 billion recorded in 2001, combining the improvement in consolidated income from operations, the goodwill write-off, an increase in the consolidated integral result of financing loss, and a larger tax provision. Consolidated net majority income amounted to Ps. 2.947 billion for 2002, a reduction of 16.9% as compared with Ps. 3.547 billion recorded in 2001. Net majority income per FEMSA unit amounted to Ps. 2.781 in 2002, compared with Ps. 3.348 for 2001.

Liquidity and Capital Resources

Liquidity

Each of our subholding companies finances its operational and capital requirements. As of December 31, 2003, 100% of our outstanding consolidated indebtedness was at the level of our subholding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of both FEMSA Cerveza and Coca-Cola FEMSA. Currently, we expect to continue to finance our operations and capital requirements primarily at the level of our subholding companies. Nonetheless, we may decide to incur indebtedness at our holding company in the future to finance the operations and capital requirements of our subsidiaries or significant acquisitions, investments or capital expenditures. In connection with the Interbrew transactions, we are incurring indebtedness to fund the acquisition of the 30% in FEMSA Cerveza owned by affiliates of Interbrew. See Financing for Interbrew Transactions. As a holding company, we would depend on dividends and other distributions from our subsidiaries to service any such indebtedness.

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We and Coca-Cola FEMSA continuously evaluate opportunities to pursue acquisitions or engage in joint ventures or other transactions. We and Coca-Cola FEMSA would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

The principal source of liquidity of each subholding company has generally been cash generated from operations. We have traditionally been able to rely on cash generated from operations because a significant majority of the sales of FEMSA Cerveza, Coca-Cola FEMSA and FEMSA Comercio are on a cash or short-term credit basis, and FEMSA Comercio s Oxxo stores are able to finance a significant proportion of their initial and ongoing inventories with supplier credit. Our principal use of cash has generally been for capital expenditure programs, debt repayments and dividend payments. The following is a summary of the principal uses of cash for the three years ended December 31, 2003:

Principal Uses of Cash

	For the Year Ended December 31,		
	2003	2002	2001
	(in millions of constant Mexican pesos)		
Net resources generated by operations	Ps. 8,858	Ps. 9,773	Ps. 10,056
Capital expenditures[(1)]	(6,789)	(5,780)	(5,531)
Bank loans, notes and interest payable	15,659	5,700	(529)
Dividends declared and paid	(1,070)	(1,185)	(657)

(1) Includes property, plant and equipment plus intangible assets and other.

Our subholding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet any capital requirements with cash from operations. A significant decline in the business of any of our subholding companies may affect the subholding company s ability to fund its capital requirements. A significant and prolonged deterioration in the economies in which we operate or in our businesses may affect our ability to obtain short-term and long-term credit or to refinance existing indebtedness on terms satisfactory to us.

We have traditionally financed significant acquisitions, principally Coca-Cola FEMSA s acquisition of Coca-Cola Buenos Aires in 1994 and more recently its acquisition of Panamco in May 2003 and our acquisition of the 30% interest in FEMSA Cerveza owned by affiliates of Interbrew, capital expenditures and other capital requirements that could not be financed with cash from operations by incurring long-term indebtedness. See Financing for Interbrew Transactions.

Our consolidated total indebtedness was Ps. 38.361 billion as of December 31, 2003, as compared to Ps. 14.354 billion as of December 31, 2002. Cash and cash equivalents were Ps. 7.733 billion as of December 31, 2003, as compared to Ps. 15.148 billion as of December 31, 2002. The significant increase in total indebtedness was primarily at Coca-Cola FEMSA and was attributable to the acquisition of Panamco in May 2003.

As of June 30, 2004, FEMSA recorded a cash balance of Ps. 7.890 billion and consolidated total indebtedness of Ps. 36.464 billion, compared to Ps. 7.733 billion and Ps. 38.361 billion, respectively, as of December 31, 2003. This consolidated total debt decrease resulted from a reduction in total debt at Coca-Cola FEMSA and FEMSA Empaques, which was offset by an increase in total debt at FEMSA Cerveza and FEMSA

Comercio.

We believe that our sources of liquidity as of December 31, 2003 and June 30, 2004 were adequate for the conduct of our subholding companies businesses and that we will have sufficient funds available to meet our expenditure demands and financing needs in 2004.

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Financing for Interbrew Transactions

We financed the US$ 1.245 billion for the Interbrew transactions described above as follows:

Source	Amount (U.S. dollar or equivalent)
Cash	US$ 295 million
Bridge loans to FEMSA, borrowed on August 23, 2004, maturing one year from the borrowing date and consisting of a Ps. 2.878 billion loan and a US$ 250 million loan to be refinanced with the net proceeds of the global offering and the Mexican B Unit offerings	US$ 500 million
Certificados bursátiles, issued on July 8, 2004, in the amount of Ps. 2.500 billion by FEMSA and guaranteed by FEMSA Cerveza, with maturities of four and five years	US$ 217 million
Term loan to FEMSA, borrowed on August 20, 2004, in the amount of Ps. 1.763 billion, maturing four years from the borrowing date	US$ 150 million
Term loan to FEMSA Cerveza, borrowed on August 20, 2004, in the amount of Ps. 1.555 billion (the equivalent of US$ 83 million of which was used to finance the payment to InBev, with the balance used for general corporate purposes), maturing five years from the borrowing date	US$ 83 million
Total	US$1,245 million

The bridge loans, the term loans and *certificados bursátiles* contain customary covenants that may affect the conduct of our business. The bridge loans will be repaid with the proceeds of the global offering and the Mexican B Unit offerings. The bridge loans and the term loans require us to cause FEMSA Cerveza to maintain certain financial ratios, limit the ability of certain of our subsidiaries to incur additional indebtedness and restrict our ability to pledge assets. The bridge loans also restrict the payment of dividends in excess of US$ 60 million prior to their maturity date. Certain of the financing instruments mentioned above are subject to either acceleration or repurchase at the lender s or holder s option if, in the case of FEMSA, the persons exercising control over FEMSA no longer exercise such control and, in the case of FEMSA Cerveza, FEMSA ceases to control FEMSA Cerveza.

The Interbrew transactions increase our indebtedness. As a holding company, we rely on dividends and other distributions from our subsidiaries to service our indebtedness. After giving effect to the repayment of the bridge loan with the net proceeds of the global offering and the Mexican B Unit offerings, the equivalent of US$ 217 million of the new indebtedness will be issued or guaranteed by FEMSA Cerveza, and the equivalent of US$ 150 million will not be guaranteed by any of our subsidiaries. The increase in debt may reduce the amount of cash otherwise available to us to pursue acquisitions or engage in joint ventures or other transactions or to invest in our business, meet our obligations or pay dividends.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

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Contractual Obligations

The table below sets forth our significant long-term contractual obligations as of December 31, 2003:

	Maturity				
	Less than 1 year	1-3 years	4-5 years	In excess of 5 years	Total
Long-Term Debt	(million of constant Mexican pesos)				
Mexican pesos	225	7,435	9,011	1,500	18,171
U.S. dollars	2,329	8,917	2,176	3,528	16,950
Colombian pesos		448	138		586
Capital Leases					
U.S. dollars	33	71	122		226
Interest Payments[(1)]					
Mexican pesos	1,278	2,284	1,213	154	4,929
U.S. dollars	840	1,370	637	250	3,097
Colombian pesos	61	93	15		169
Interest Rate Swaps[(2)]					
Mexican pesos	141	274	200		615
U.S. dollars	96	145			241
Operating Leasing					
Mexican pesos	437	830	775	2,948	4,990
U.S. dollars	418	641	372	417	1,848
Price Commodity Contracts					
U.S. dollars	580	123			703
Contributions to the Pension Plan and post-retirement medical services[(3)]	90	180	180	900	1,350
Other Long-term Liabilities[(4)]				2,519	2,519

(1) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2003. The debt and applicable interest rates in effect are shown in note 17 to our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2003, which is incorporated by reference in this prospectus. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 11.2350 per U.S. dollar, the exchange rate quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2003 and were not restated in constant Mexican pesos as of December 31, 2003.

(2) The interest rate swaps reflect the amount of future payments that we would be required to make. The amounts were calculated by applying the difference between the interest rate swaps and the nominal interest rates contracted to long-term debt as of December 31, 2003. Liabilities denominated in U.S. dollars were translated to Mexican pesos as described in footnote (1) above.

(3) Assuming Ps. 90 million per year for the next 10 years. Based on actuarial calculations and contributions made by us in previous years.

(4) Other long-term liabilities reflects liabilities whose maturity date is undefined and depends on a series of circumstances out of our control, therefore these liabilities have been considered to have a maturity of more than five years.

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Overview of Debt Instruments

The following table shows the allocations of debt of our company as of December 31, 2003:

	Debt Profile of the Company					
	FEMSA and Others	Coca-Cola FEMSA	FEMSA Cerveza	FEMSA Comercio[2]	FEMSA Empaques[2]	Total Debt
	(in millions of Mexican pesos)					
Short-term Debt						
U.S. dollars:						
Bank loans	Ps.	Ps. 753	Ps.	Ps. 57	Ps. 457	Ps. 1,267
Unsecured loan					225	225
Mexican pesos:						
Unsecured loan		905	31			936
Long-term Debt[1]						
U.S. dollars:						
Bank loans	24	5,676	1,882		110	7,692
Yankee bond		5,680				5,680
Private placement		1,124				1,124
Leasing		32			194	226
Syndicated loan				1,477	910	2,387
Mortgage loan	67					67
Mexican pesos:						
Bank loans		2,741	3,749		263	6,753
Notes		10,000				10,000
Units of investment (UDIS)		1,418				1,418
Colombian pesos:						
Notes		586				586
Total	Ps. 91	Ps. 28,915	Ps. 5,662	Ps. 1,534	Ps. 2,159	Ps. 38,361
Average Cost						
U.S. dollars	3.6%	5.9%	3.8%	3.0%	3.3%	5.2%
Mexican pesos		7.4%	9.0%		6.1%	7.7%
Colombian pesos		10.3%				10.3%
Total	3.6%	6.8%	7.3%	3.0%	3.7%	6.5%

(1) Includes the Ps. 2,588 million current portion of long-term debt.
(2) Excludes subordinated intercompany debt.

Generally, the covenants contained in the credit facilities and other instruments governing our indebtedness entered into by our subholding companies include limitations on the incurrence of any additional debt based on debt service coverage ratios or leverage tests. The credit agreements entered into by our subholding companies or their subsidiaries also generally include restrictive covenants applicable to our subholding companies and their subsidiaries. There are no cross-guarantees between subholding companies, and we have not provided guarantees with respect to any of the debt obligations of our subholding companies.

We are incurring additional indebtedness in connection with the Interbrew transactions that contain additional covenants. See Financing for the Interbrew Transactions.

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The following is a summary of our indebtedness by subholding company at December 31, 2003:

Coca-Cola FEMSA. As a result of the Panamco acquisition, Coca-Cola FEMSA s total indebtedness was Ps. 28,915 million, excluding Ps. 89 million of short and long term notes payable, as of December 31, 2003, as compared to Ps. 3,306 million as of December 31, 2002. Cash and cash equivalents were Ps. 2,783 million as of December 31, 2003, as compared to Ps. 6,429 million as of December 31, 2002. Approximately US$ 43 million of cash is subject to restrictions as a result of certain collateral arrangements Coca-Cola FEMSA entered into on behalf of its subsidiaries with respect to existing indebtedness.

As part of Coca-Cola FEMSA s financing policy, it expects to continue to finance its liquidity needs from cash from operations, although in the future it may be required to finance its working capital and capital expenditure needs with short-term debt or other borrowings. As a result of regulations in certain countries in which it operates, it may not be beneficial or, as in the case of exchange controls in Venezuela, practicable for Coca-Cola FEMSA to remit cash generated in local operations to fund cash requirements in other countries. In the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, Coca-Cola FEMSA or its subsidiaries may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country.

As of December 31, 2003, Coca-Cola FEMSA had U.S. dollar-denominated, uncommitted approved lines of credit totaling approximately Ps. 2,944 million, of which Ps. 2,039 million was available as of such date. In December 2003, Coca-Cola FEMSA finalized a loan agreement with The Coca-Cola Company that permits it to borrow, upon the satisfaction of certain conditions, up to US$ 250 million prior to December 20, 2006 for funding working capital needs and for other general corporate purposes at any time when such funding is not otherwise available under existing lines of credit.

Coca-Cola FEMSA s average cost of debt was 5.9% in U.S. dollars, 7.4% in Mexican pesos and 10.3% in Colombian pesos as of December 31, 2003 compared to 9.1% in U.S. dollars as of December 31, 2002

FEMSA Cerveza. As of December 31, 2003, FEMSA Cerveza s total outstanding debt was Ps. 5,662 million, which included Ps. 31 million of outstanding short-term trade and working capital loans. As of December 31, 2003, FEMSA Cerveza had approximately Ps. 5,631 million of long-term debt outstanding that included a Ps. 285 million medium-term revolving loan and Ps. 5,346 million consisting of bilateral loans and equipment financing loans. As of December 31, 2003, FEMSA Cerveza had U.S. dollar-denominated approved, uncommitted lines of credit totaling approximately Ps. 2,030 million, of which Ps. 1,999 million was available as of such date. FEMSA Cerveza s average cost of debt as of December 31, 2003 was 9.0% in Mexican pesos and 3.8% in U.S. dollars.

FEMSA Comercio. As of December 31, 2003, FEMSA Comercio s total outstanding debt was Ps. 1,534 million, which consisted of a Ps. 1,477 long-term syndicated loan denominated in U.S. dollars that matures in August 2006, and Ps. 57 million of U.S. dollar-denominated short-term debt that matures in June 2004. As of December 31, 2003, FEMSA Comercio had U.S. dollar-denominated approved, uncommitted lines of credit totaling Ps. 1,036 million, all of which was available as of such date. FEMSA Comercio s average cost of debt was 3.0% in U.S. dollars as of December 31, 2003 compared to 2.7% as of December 31, 2002.

FEMSA Empaques. As of December 31, 2003, FEMSA Empaques total outstanding debt was Ps. 2,159 million, Ps. 682 million of which consisted of short-term trade and the remaining Ps. 1,477 million which consisted of long-term indebtedness. As of December 31, 2003, FEMSA Empaques long-term debt obligations amounted to Ps. 567 million under long-term credit agreements incurred in connection with equipment financing transactions and/or government sponsored export-financing programs of the countries of origin of such equipment and Ps. 910 million of a long term syndicated loan maturing in December 2005. As of December 31, 2003, FEMSA Empaques had U.S. dollar-denominated approved, uncommitted lines of credit totaling Ps. 1,235 million, of which Ps. 554 million was available as of such date. FEMSA Empaques average cost of debt was 3.7% as of December 31, 2003 compared to 2.9% as of December 31, 2002.

Contingencies

We have various loss contingencies, for which reserves have been recorded in those cases where we believe the results of an unfavorable resolution is probable. Most of these loss contingencies have been recorded as an increase of the intangible assets recorded in the Panamco acquisition. Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

Capital Expenditures

For the past four years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Principal components of our capital expenditures have been for equipment, market-related investments and production capacity and distribution network expansion at Coca-Cola FEMSA and at FEMSA Cerveza, the construction of new Oxxo stores at FEMSA Comercio, and plant improvements at FEMSA Empaques.

Expected Capital Expenditures for 2004

Our capital expenditure budget for 2004 is expected to be approximately Ps. 8.5 billion. The following discussion is based on each of our subholding companies internal 2004 budgets. The capital expenditure plan for 2004 is subject to change based on market and other conditions and the subsidiaries results of operations and financial resources.

In connection with the continued integration of Coca-Cola FEMSA s new territories, it estimated that its capital expenditures in 2004 would be approximately of Ps. 2.1 billion. Coca-Cola FEMSA s capital expenditures in 2004 are primarily intended for:

- investments in returnable bottles and cases;
- market investments (primarily for the placement of refrigeration equipment); and
- integration of operations within our new territories, such as expenditures required to standardize our information systems, replace older distribution vehicles, overhaul plant facilities and distribution centers, and improve our manufacturing facilities.

FEMSA Cerveza s capital expenditure budget for 2004 is expected to be approximately Ps. 4.7 billion. FEMSA Cerveza expects to allocate part of this budget for investments in its manufacturing facilities, predominantly related to marginal capacity expansions of its breweries and equipment modernization. FEMSA Cerveza also expects to apply a portion of this budget towards the improvement of its distribution assets, including new and replacement vehicles, the maintenance of a secondary distribution fleet and its ERP and information technology systems. In addition, FEMSA Cerveza plans to invest in commercial and market-related activities such as the enhancement of its retail coverage, to acquire third-party distributors, to develop long-term sponsorships and to place refrigeration equipment nationwide.

FEMSA Comercio s capital expenditure budget in 2004 is expected to total approximately Ps. 1.4 billion. The year 2004 s budget will be allocated to the addition of new Oxxo stores and to a lesser extent to the refurbishing of the existing Oxxo stores. In addition, investments are planned in FEMSA Comercio s information technology and ERP software systems.

FEMSA Empaques capital expenditure budget for 2004 is expected to be approximately Ps. 329 million to be allocated among its various product lines and facilities.

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Hedging Activities

Our business activities require the holding or issuing of derivative instruments to hedge our exposure to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk.

The following table provides a summary of the fair value of derivative instruments as of December 31, 2003. The fair market value is obtained mainly from external sources, which are our counterparties to the contracts.

	Fair Value At December 31, 2003				
	Maturity less than 1 year	Maturity 1-3 years	Maturity 4-5 years	Maturity in excess of 5 years	Total fair value
	(in millions of constant Mexican pesos)				
Prices quoted by external sources	(63)	(88)	(183)		(334)

In connection with the financing of the Interbrew transactions, we entered into forward contracts to buy U.S. dollars. The aggregate amount of the forward contracts was US$ 940 million with maturity dates from July to December 2004 and with a compounded average forward exchange rate of 11.63 Mexican pesos per U.S. dollar. During August 2004, US$ 690 million of these forward contracts matured, generating an exchange loss of Ps. 71 million that is not recorded in the unaudited pro forma consolidated income statements. The remaining US$ 250 million in forward contracts are outstanding with maturities in December 2004 and a forward exchange rate of 11.75 Mexican pesos per U.S. dollar. We did not estimate exchange rates applicable at the maturity date for the forward contracts maturing in December 2004. Any exchange rate variation between the exchange rate as of the day on which the forward contracts mature and the forward exchange rate will be recorded as a foreign exchange gain or loss, as applicable, in our income statement.

Plan for the Disposal of Certain Fixed Assets

We have identified certain fixed assets consisting of land, buildings and equipment for disposal, and we have an approved program for disposal of these fixed assets. These assets are not in use and have been valued at their estimated realizable value, according to independent appraisals. These assets are allocated as follows:

	December 31,	
	2003	2002
	(in millions of Mexican pesos)	
FEMSA Cerveza	Ps. 299	Ps. 409
FEMSA Empaques	41	41

FEMSA	327	341
Total	Ps. 667	Ps. 791

Fixed assets recorded at their estimated realizable value are considered monetary assets on which a loss on monetary position is computed and recorded in the results of operation.

U.S. GAAP Reconciliation

The principal differences between Mexican GAAP and U.S. GAAP that affect our net income and majority stockholders equity relate to the accounting treatment of the following items:

deferred income taxes and deferred employee profit sharing;

deferred promotional expenses;

restatement of imported machinery and equipment;

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goodwill amortization;

financial instruments; and

capitalization of interest expense.

For a more detailed description of the differences between Mexican GAAP and U.S. GAAP as they relate to us and a reconciliation of net majority income and majority stockholders equity under Mexican GAAP to net income and stockholders equity under U.S. GAAP, see notes 25 and 26 to our consolidated financial statements contained in our annual report on Form 20-F for the year ended December 31, 2003, incorporated by reference in this prospectus and notes 27 and 28 to our unaudited consolidated financial statements for the six months ended June 30, 2004 included in this prospectus.

Pursuant to Mexican GAAP, our consolidated financial statements recognize certain effects of inflation in accordance with Bulletin B-10 and B-12. These effects were not reversed in the reconciliation to U.S. GAAP.

Under U.S. GAAP, we had net income of Ps. 3.271 billion and Ps. 3.206 billion in 2003 and 2002, respectively. Under Mexican GAAP, we had net majority income of Ps. 3.093 billion and Ps. 2.947 billion in 2003 and 2002, respectively. In 2003, net income under U.S. GAAP was higher than net majority income under Mexican GAAP, mainly as a result of the effect of deferred income taxes, deferred employee profit sharing and financial instruments.

Under U.S. GAAP, we had net income of Ps. 2.520 billion and Ps. 1.349 billion for the six months ended June 30, 2004 and 2003, respectively. Under Mexican GAAP, we had net majority income of Ps. 2.434 billion and Ps. 1.217 billion for the same periods, respectively.

Stockholders equity under U.S. GAAP as of December 31, 2003 and 2002 was Ps. 42.112 billion and Ps. 38.233 billion, respectively. Under Mexican GAAP, majority stockholders equity as of December 31, 2003 and 2002 was Ps. 28.400 billion and Ps. 24.024 billion, respectively. As of June 30, 2004, stockholders equity was Ps. 44.992 billion under U.S. GAAP and majority stockholders equity was Ps. 31.062 billion under Mexican GAAP. The principal reasons for the difference between stockholders equity under U.S. GAAP and majority stockholders equity under Mexican GAAP were the effect of the goodwill generated by the minority interest acquisition and the restatement of imported machinery and equipment, partially offset by the effects of deferred income taxes and deferred employee profit sharing.

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BUSINESS

FEMSA

Our Company

We are the largest Latin American integrated beverage company, based on total sales in 2003, and we have a portfolio of leading beer and soft drink brands. We are the second largest brewer in Mexico, based on sales volume in 2003, with brands that include *Tecate*, *Dos Equis* and *Sol*. Through our subsidiary, Coca-Cola FEMSA, we are the largest Coca-Cola bottler in Latin America and the second largest in the world, based on sales volumes in 2003. We sell our products through approximately two million points of sale, which serve a population of over 170 million people in nine countries, including some of the most populous metropolitan areas in Latin America, such as Mexico City, São Paulo and Buenos Aires. Our manufacturing and distribution capabilities are enhanced by our retail and packaging operations. We operate Oxxo, the largest convenience store chain in Mexico, with 2,798 stores at December 31, 2003. Our integrated business operations enable us to operate more efficiently and effectively and provide us with a platform for growth in Latin America.

The following chart provides an overview of our operations by segment:

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(1) Expressed in millions of Mexican pesos, except for ownership percentages. The sum of the financial data for each of our segments differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA which are not included in these four segments, including corporate services.
(2) Percentage of capital stock, equal to 53.6% of capital stock with full voting rights.
(3) On August 31, 2004, we acquired the remaining 30% interest in FEMSA Cerveza, and as a result of this acquisition as of the date of this prospectus FEMSA owns 100% of FEMSA Cerveza.

Summary of Operations

Coca-Cola FEMSA s most important brand is *Coca-Cola*, which accounted for 60.2% of its total consolidated sales volume in 2003. Coca-Cola FEMSA depends on its bottler agreements with The Coca-Cola Company to have the right to bottle and distribute Coca-Cola trademark beverages in its territories. Coca-Cola FEMSA s territories represented approximately 40% of *Coca-Cola* sales volume in Latin America in 2003. Coca-Cola FEMSA s Mexican territories cover central Mexico, including Mexico City, and southeast Mexico. In 2003, 66.7% of Coca-Cola FEMSA s total revenue and 84.0% of its income from operations were generated in Mexico. In addition to Mexico, Coca-Cola FEMSA operates in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina.

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Through FEMSA Cerveza, we produce and distribute 15 brands of beer in a variety of bottle and can presentations. The most important brands in our beer portfolio include *Tecate*, *Carta Blanca*, *Sol* and *Superior*, which together accounted for approximately 88% of our domestic beer sales volume in 2003. In 2003, we sold 91.9% of our total beer sales volume in the Mexican market, which is the eighth largest beer market in the world based on sales volume in 2003. We export our beer brands to more than 70 countries worldwide, with the United States being our most important export market. Our export sales represented 8.1% of our total beer sales volume in 2003. Our principal export brands are *Tecate*, *XX Lager*, *Dos Equis (Amber)* and *Sol*.

Through FEMSA Comercio, we operated 2,798 Oxxo stores throughout Mexico at December 31, 2003. We have tripled the number of our Oxxo stores over the five years ended December 31, 2003 and expect to continue to increase the number of stores. FEMSA Comercio s sales increased at a compounded annual rate of 22% over the five years ended December 31, 2003. Oxxo stores exclusively sell our beer brands and represented 5.4% of FEMSA Cerveza s domestic sales volume in 2003. Soft drinks, telephone cards and cigarettes are the other main products sold at Oxxo stores. As a retail operation, FEMSA Comercio has lower operating margins than our core beverage businesses.

In order to support our beverage operations, we manufacture and distribute a wide variety of packaging products, primarily in Mexico. Our principal packaging products are aluminum beverage cans, crown caps and glass bottles. The majority of our packaging products are sold to Coca-Cola FEMSA and FEMSA Cerveza.

Competitive Strengths

We believe the combination of our production, distribution and selling infrastructure creates a platform for growth in Latin America with the following competitive strengths:

Leading Market Position. We are among the largest beverage companies in our territories, which have a total population of approximately 170 million people. Our markets include some of the most populous metropolitan areas in Latin America, such as Mexico City, São Paulo and Buenos Aires. Although our markets are highly competitive and we have experienced challenging conditions in some of these markets, we believe that our size will allow us to realize economies of scale and take advantage of profitable growth opportunities in our markets.

Broad Portfolio of Leading Brands. Our beverage products comprise 46 soft drink brands and 15 beer brands, including *Coca-Cola*, which is one of the most widely recognized brands in the world. We believe that our *Sol* brand is the fastest growing brand of beer in the Mexican market in terms of sales volume for the three years ended December 31, 2003. We believe we have the ability to introduce new brands and new presentations to target particular consumer preferences in each of our territories.

Well-Developed Distribution Network. We sell our beverage products in approximately two million points of sale throughout Latin America. We have developed long-term relationships with smaller predominately mom and pop style retailers in Mexico, who are the main sellers of our products. In recent years, our Oxxo stores have gained importance as an effective distribution channel for our beverage products.

Expanding Presence in U.S. Beer Market. Over the past several years, sales of Mexican beers in the United States have grown significantly faster than U.S. domestic brands. Our *Tecate* beer brand currently is the fourth largest import brand in the United States based on estimated sales volume in 2003. We have recently entered into a distribution agreement with Heineken USA.

Sophisticated Information Systems. We are making significant investments in our information gathering and processing systems. As we continue to improve these systems, we believe we will be better able to optimize price and to segment markets by brand, presentation, channel and consumption occasion on a point of sale basis. Our systems are gradually allowing us to be more efficient and effective in production, marketing and distribution.

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Proven Management Track Record. Our total sales increased over the five years ended December 31, 2003 at a compounded annual rate of 12%, while our income from operations increased at a compounded annual rate of 14% during the same period. We have an experienced management team that has delivered solid financial results, and we believe that our improved profitability is attributable in large part to the strength of our management.

Strategy

We are a beverage company. Soft drinks and beer are our core businesses, which together define our identity and are the main avenues for our future growth. As a beverage company, we understand the importance of connecting with our consumers by interpreting their needs and ultimately delivering the right products to them for the right occasions. We strive to achieve this by investing in developing and strengthening the brands under which we market and sell our products, expanding our already significant distribution capabilities and improving the efficiency of our operations. Our ultimate objectives are achieving sustainable revenue growth, improving profitability and increasing the return on invested capital in each of our operations. We believe that by achieving these goals we will create sustainable value for our shareholders.

The following are the key elements of our strategy:

Grow Profitably in Beer. We seek to achieve profitable volume growth in our beer business ultimately to generate value for our shareholders. In order to achieve these objectives in our core Mexican markets, we are following a comprehensive strategy which seeks to:

- differentiate brand portfolios through market segmentation and brand positioning;
- develop advanced capabilities to gather information at the point of sale, by ensuring that appropriate products are being sold at the right price points;
- establish profitable, long-term relationships with retailers, by helping them to sell more products to consumers;
- achieve balanced and profitable market coverage, by selecting the appropriate mix of on-premise accounts (bars and restaurants where our products are consumed at the point of sale) and off-premise accounts (convenience stores and supermarkets where our products are purchased for consumption at a later point in time); and
- continuously pursue the maximization of efficiencies and cost reductions from production to final distribution, by using information technology and adapting processes accordingly.

Increase Beer Sales in the United States. We seek to increase the sales of our beer brands in the United States. We have recently entered into an agreement with Heineken USA under which Heineken USA will become the exclusive distributor of our beers in the United States. We believe that our brands complement Heineken USA s existing portfolio of brands in the United States and that this arrangement will allow us to expand the geographic focus of our brands, especially in the eastern United States.

Enhance Profitability in Soft Drinks. Coca-Cola FEMSA seeks to increase its profitability by implementing well-planned product, package and pricing strategies through channel distribution and by identifying and implementing successful business practices across territories in order to improve operational efficiencies. Coca-Cola FEMSA seeks to increase per capita consumption of soft drinks in the territories in which it operates and to develop its product portfolio to better meet market demand and maintain overall profitability.

In addition, Coca-Cola FEMSA uses market information systems and strategies developed with The Coca-Cola Company to improve its coordination with the worldwide marketing efforts of The Coca-Cola Company.

Continued Expansion of Oxxo Chain. We plan to continue to expand the number of Oxxo stores in Mexico. Because Oxxo exclusively carries our beer brands, we believe that Oxxo s expansion will contribute to increased market penetration of our beer brands in Mexico. Market segmentation is becoming an important strategic tool, and we expect that it will increasingly allow us to improve the operating efficiency of each store location and the overall profitability of the chain by providing products that customers demand. We are currently further developing our own distribution capabilities, which will permit us to expand our product offerings to include items such as fast food at a lower cost and we believe, ultimately, will enhance our profitability.

Maximizing Operating Efficiencies. We believe the size and scope of our businesses present us with opportunities to improve the efficiency of our operations and leverage our operating strengths across our company. For example, in our beer operations, unsold product returned at the end of a route decreased to 2% from 40% as a result of the implementation in 2003 of pre-sale (a distribution method in which the sales and delivery functions are separated and trucks are loaded with the actual mix of products that retailers have previously ordered). Coca-Cola FEMSA decreased the number of production facilities existing at the time of the Panamco acquisition from 52 to 32, while at the same time increasing productivity measured in terms of unit cases sold by its remaining plants by more than 50% on a company-wide basis.

We are a Mexican company headquartered in Monterrey, Mexico. Our legal name is Fomento Económico Mexicano, S.A. de C.V., and in commercial contexts we frequently refer to ourselves as FEMSA. Our principal executive offices are located at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410, Mexico. Our telephone number at this location is (52-81) 8328-6000. Our website is www.femsa.com. We are organized as a s*ociedad anónima de capital variable* under the laws of Mexico. Our agent in the U.S. is Donald Puglisi, 850 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware 19715. Our company was incorporated on May 30, 1936 and has a duration of 99 years.

Corporate Background

FEMSA traces its origins to the establishment of Mexico s first brewery, Cervecería Cuauhtémoc, S.A. de C.V., which we refer to as Cuauhtémoc, which was founded in 1890 by four Monterrey businessmen: Francisco G. Sada, José A. Muguerza, Isaac Garza and José M. Schneider. The company is controlled by descendants of certain of the founders of Cuauhtémoc.

In 1891, the first year of production, Cuauhtémoc produced 2,000 hectoliters of beer. Cuauhtémoc continued to expand through additions to existing plant capacity and through acquisitions of other Mexican breweries, and has continued to increase its production capacity, reaching approximately 32.5 million hectoliters in 2003.

The strategic integration of the company dates back to 1936 when Famosa was established to supply crown caps to the brewery. The packaging operations were expanded in 1957 when we began to produce labels and flexible packaging for the company s beer operations. During this period, these operations were part of what was known as the Monterrey Group, which also included interests in banking, steel and other packaging operations.

In 1974, the Monterrey Group was split between two branches of the descendants of the founding families of Cuauhtémoc. The steel and other packaging operations formed the basis for the creation of Corporación Siderúrgica, S.A. (later Grupo Industrial Alfa, S.A. de C.V.), controlled by the Garza Sada family, and the beverage and banking operations were consolidated under the FEMSA corporate umbrella, controlled by the Garza Lagüera family. FEMSA s shares were first listed on the Mexican Stock Exchange on September 19, 1978. Between 1977 and 1981, FEMSA diversified its operations through acquisitions in the soft drink and mineral water industries, the establishment of the first convenience stores under the trade name Oxxo and investments in the hotel, construction, auto parts, food and fishing industries, which were subsequently divested.

In August 1982, the Mexican government suspended payment on its international debt obligations and nationalized the Mexican banking system. In 1985, certain controlling shareholders of FEMSA acquired a controlling interest in Cervecería Moctezuma, S.A., which was then Mexico s third-largest brewery and which we refer to as Moctezuma, and related companies in the packaging industry. FEMSA subsequently undertook an extensive corporate and financial restructuring that was completed in December 1988.

Pursuant to the 1988 restructuring, these different assets were combined under a single corporate entity, which became Grupo Industrial Emprex, S.A. de C.V., which we refer to as Emprex. The debt restructuring included a capital increase, capitalization of debt and a divestiture of interests in non-core businesses. As a result of these transactions, FEMSA s interest in Emprex was diluted to 60%, only to increase subsequently to approximately 68% as a result of the exercise of certain option rights by FEMSA.

In August 1991, FEMSA repurchased approximately 30% of its shares from a dissident minority shareholder. In October 1991, certain majority shareholders of FEMSA acquired a controlling interest in Bancomer, S.A., which we refer to as Bancomer. The investment in Bancomer was undertaken as part of the Mexican government s reprivatization of the banking system, which had been nationalized in 1982. The Bancomer acquisition was financed in part by a subscription by Emprex s shareholders, including FEMSA, of shares in Grupo Financiero Bancomer, S.A. de C.V. (currently Grupo Financiero BBVA Bancomer, S.A. de C.V.), which we refer to as BBVA Bancomer, the Mexican financial services holding company that was formed to hold a controlling interest in Bancomer. In February 1992, FEMSA offered Emprex s shareholders the opportunity to exchange the BBVA Bancomer shares to which they were entitled for Emprex shares owned by FEMSA. As a result, FEMSA s interest in Emprex declined to approximately 62%. In connection with these transactions, an 11% interest in Emprex was issued to a European portfolio investor. This reduced FEMSA s interest in Emprex to approximately 51%. In August 1996, the shares of BBVA Bancomer that were received by FEMSA in the exchange with Emprex s shareholders were distributed as a dividend to FEMSA s shareholders.

Upon the completion of these transactions, Emprex began a series of strategic transactions to strengthen the competitive positions of its operating subsidiaries. These transactions included the sale of a 30% strategic interest in Coca-Cola FEMSA to a wholly-owned subsidiary of The Coca-Cola Company and a subsequent public offering of Coca-Cola FEMSA shares, both of which occurred in 1993, and the sale of a 22% strategic interest in FEMSA Cerveza to Labatt in 1994. Labatt subsequently increased its interest in FEMSA Cerveza to 30%.

In 1998, we completed a reorganization that:

- simplified our capital structure by converting our outstanding capital stock at the time of the reorganization into BD Units and B Units, and

- united the shareholders of FEMSA and the former shareholders of Emprex at the same corporate level through an exchange offer that was consummated on May 11, 1998.

As part of the reorganization, FEMSA listed ADSs on the New York Stock Exchange representing BD Units, and listed the BD Units and the B Units on the Mexican Stock Exchange. Prior to the completion of the exchange offer, FEMSA owned 51.04% of the shares of Emprex. Upon the completion of the exchange offer, FEMSA owned 98.70% of the outstanding shares of Emprex, which amount increased to 99.99% through a tender offer by FEMSA for the remaining Emprex shares.

In July 2002, as a result of the split-up or *escisión* of Emprex, Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA, was created as a new company to hold our interest in Coca-Cola FEMSA.

In May 2003, our subsidiary Coca-Cola FEMSA expanded its operations throughout Latin America by acquiring 100% of Panamco, then the largest soft drink bottler in Latin America in terms of sales volume in 2002. Through its acquisition of Panamco, Coca-Cola FEMSA began producing and distributing *Coca-Cola* trademark beverages in additional territories in Mexico, Central America, Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. The total cost of the acquisition was Ps. 29,518 million and was financed with new debt, an equity contribution by FEMSA, an exchange of The

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Coca-Cola Company s equity interests in Panamco and available cash. Shareholders of Panamco, other than The Coca-Cola Company and its subsidiaries, received cash in exchange for their shares. The Coca-Cola Company and its subsidiaries received Series D Shares in exchange for their equity interest in Panamco of approximately 25%. FEMSA indirectly owns 45.7% of the capital stock of Coca-Cola FEMSA (53.6% of its capital stock with full voting rights) and The Coca-Cola Company indirectly owns 39.6% of the capital stock of Coca-Cola FEMSA (46.3% of its capital stock with full voting rights). The remaining 14.7% of its capital consists of Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and on the New York Stock Exchange in the form of ADSs under the trading symbol KOF.

On August 31, 2004, we acquired the 30% interest of FEMSA Cerveza previously owned by affiliates of InBev (formerly known as Interbrew), and as a result of this acquisition we own 100% of FEMSA Cerveza. See Operating and Financial Review and Prospects Recent Developments Interbrew Transactions.

Operations by Segment Overview

Year Ended December 31, 2003[(1)]

	Coca-Cola FEMSA		FEMSA Cerveza		FEMSA Comercio		FEMSA Empaques	
	Pesos	%	Pesos	%	Pesos	%	Pesos	%
Total Revenues	35,729	47.08	21,924	28.89	16,601	21.87	7,352	9.69
Income from Operations	6,710	55.53	3,556	29.43	694	5.74	988	8.18
Total Assets	61,420	58.87	28,936	27.73	6,137	5.88	7,168	6.87
Employees	56,841	65.99	16,461	19.11	5,859	6.80	4,197	4.87

(1) Expressed in millions of Mexican pesos, except for employees. The sum of the financial data for each of our segments and percentages with respect thereto differ from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA, including corporate services.

Total Revenues Summary by Segment[(1)]

	Year Ended December 31,		
	2003	2002	2001
Coca-Cola FEMSA	35,729	18,668	17,773
FEMSA Cerveza	21,924	21,642	21,529
FEMSA Comercio	16,601	13,247	11,160
FEMSA Empaques	7,352	6,862	6,840
Other	3,843	3,559	3,176
Consolidated Total Revenues	75,891	55,395	52,465

(1) Expressed in millions of Mexican pesos. The sum of the financial data for each segment differ from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.

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Total Revenues Summary by Geographic Location [(1)]

	Year Ended December 31,		
	2003	2002	2001
Mexico	64,185	53,571	50,477
Argentina	2,077	1,824	1,988
Brazil	2,797		
Venezuela	2,544		
Colombia	2,319		
Central America	2,187		
Consolidated Total Revenues	75,891	55,395	52,465

(1) Expressed in millions of Mexican pesos. The sum of the financial data for each territory differ from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.

Coca-Cola FEMSA

Overview and Background

Coca-Cola FEMSA is the largest *Coca-Cola* bottler in Latin America, with its territories representing approximately 40% of *Coca-Cola* sales volumes in Latin America, and the second largest bottler of *Coca-Cola* trademark beverages in the world, calculated in each case by sales volumes in unit cases sold in its territories in 2003. Coca-Cola FEMSA operates in the following territories:

Mexico a substantial portion of central Mexico (including Mexico City) and southeast Mexico (including the Gulf region).

Central America Guatemala City and surrounding areas, Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).

Colombia most of the country.

Venezuela nationwide.

Brazil the area of greater São Paulo, Campinas, Santos, the state of Mato Grosso do Sul and part of the state of Goiás.

Argentina federal capital of Buenos Aires and surrounding areas.

The following is an overview of Coca-Cola FEMSA s operations by territory in 2003:

Operations by Territory Overview

Year Ended December 31, 2003[1][2]

	Mexico		Central America		Colombia		Venezuela		Brazil		Argentina	
	Pesos	%	Pesos	%	Pesos	%	Pesos	%	Pesos	%	Pesos	%
Total Revenues	23,935.2	66.7%	2,186.5	6.1%	2,319.1	6.5%	2,544.5	7.1%	2,796.9	7.8%	2,076.9	5.8%
Income from Operations	5,633.6	84.0%	218.4	3.2%	261.1	3.9%	231.5	3.5%	149.8	2.2%	215.6	3.2%

(1) The sums of the financial data for each of Coca-Cola FEMSA s territories and percentages with respect thereto differ from its consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain non-operating assets and activities of Coca-Cola FEMSA, including corporate services.

(2) Expressed in millions of Mexican pesos.

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In 1979, a subsidiary of ours acquired certain soft drink bottler subsidiaries that are now a part of Coca-Cola FEMSA. At that time, the acquired subsidiaries had 13 Mexican distribution centers operating 701 distribution routes, and the production capacity of the acquired subsidiaries was 83 million physical cases. In 1991, we transferred our ownership in the subsidiaries to FEMSA Refrescos, S.A. de C.V., the corporate predecessor of Coca-Cola FEMSA.

Consistent with Coca-Cola FEMSA s goals of maximizing long-term profitability and growth and enhancing its competitive position, in June 1993, a subsidiary of The Coca-Cola Company subscribed for 30% of Coca-Cola FEMSA s capital stock in the form of Series D Shares for US$ 195 million. In September 1993, FEMSA sold Series L Shares that represented 19% of Coca-Cola FEMSA s capital stock to the public, and Coca-Cola FEMSA listed these shares on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange. After giving effect to these transactions, we retained a 51% indirect interest in Coca-Cola FEMSA.

In a series of transactions between 1994 and 1997, Coca-Cola FEMSA acquired the territory for the federal capital of Buenos Aires by purchasing 100% of Coca-Cola FEMSA de Buenos Aires, S.A. de C.V. from a subsidiary of The Coca-Cola Company. Coca-Cola FEMSA expanded its Argentine operations in February 1996 by acquiring the former San Isidro Refrescos, S.A. territories including certain properties of Refrescos del Norte, S.A. Through these transactions, Coca-Cola FEMSA expanded its Argentine operations to include the contiguous San Isidro and Pilar areas.

Coca-Cola FEMSA expanded its Mexican operations in November 1997 by acquiring 100% of Embotelladora de Soconusco, S.A. de C.V., a bottler in the Tapachula area of the state of Chiapas in southern Mexico. With this acquisition, Coca-Cola FEMSA services the entire state of Chiapas.

In May 2003, Coca-Cola FEMSA expanded its operations throughout Latin America by acquiring 100% of Panamco, then the largest soft drink bottler in Latin America in terms of sales volumes in 2002. Through Coca-Cola FEMSA s acquisition of Panamco, Coca-Cola FEMSA began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and the gulf regions of Mexico, and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. The total cost of the transaction was approximately Ps. 29,518 million, excluding transaction expenses, and Coca-Cola FEMSA financed the acquisition as follows: Ps. 17,267 million of new debt (including approximately Ps. 5,245 million used to refinance existing Panamco indebtedness); a Ps. 2,779 million capital investment from FEMSA; the issuance of Coca-Cola FEMSA s Series D Shares to subsidiaries of The Coca-Cola Company in exchange for a capital contribution of Ps. 7,041 million in the form of equity interests in Panamco; Ps. 2,820 million in cash; and Ps. 9,085 million of assumed net debt.

As of June 30, 2004, we indirectly owned 45.7% of Coca-Cola FEMSA s capital stock, representing 53.6% of Coca-Cola FEMSA s capital stock with full voting rights, and The Coca-Cola Company indirectly owned 39.6% of Coca-Cola FEMSA s capital stock, representing 46.4% of Coca-Cola FEMSA s capital stock with full voting rights. As of June 30, 2004, the remaining 14.7% of Coca-Cola FEMSA s capital stock consisted of Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange.

On July 6, 2004, Coca-Cola FEMSA filed a registration statement with the SEC with respect to the offering of up to 98,840,861 of its newly-issued Series L Shares, including Series L Shares in the form of American Depositary Shares, to holders of its Series L Shares and American Depositary Shares, as applicable, in a rights offering. After giving effect to the Coca-Cola FEMSA rights offering that expired on September 1, 2004, FEMSA indirectly owns 45.7% of the capital stock of Coca-Cola FEMSA (53.6% of its capital stock with full voting rights), The Coca-Cola Company indirectly owns 39.6% of the capital stock of Coca-Cola FEMSA (46.4% of its capital stock with full voting rights) and the Series L Shares with limited voting rights are equal to the remaining 14.7% of its capital stock.

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Business Strategy

Coca-Cola FEMSA is the largest bottler of *Coca-Cola* trademark beverages in Latin America in terms of sales volumes in 2003, with operations in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. While Coca-Cola FEMSA s corporate headquarters are in Mexico City, it has established divisional headquarters in the following three regions:

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

Coca-Cola FEMSA seeks to provide its shareholders with an attractive return on their investment by increasing its profitability. The key factors in achieving profitability are increasing its revenues by implementing well planned product, package and pricing strategies through channel distribution and by implementing best practices in order to improve operational efficiencies throughout Coca-Cola FEMSA. To achieve these goals Coca-Cola FEMSA continues its efforts in:

- working with The Coca-Cola Company to continue exploring new lines of beverages that extend existing brands and allow Coca-Cola FEMSA to participate in new beverage segments;
- implementing packaging strategies designed to increase consumer demand for Coca-Cola FEMSA s products and to build a strong returnable base in Coca-Cola FEMSA s new territories;
- replicating Coca-Cola FEMSA s successful best practices throughout the whole value chain within the newly acquired territories;
- rationalizing and adapting Coca-Cola FEMSA s organizational and asset structure in order to be in a better position to respond to a changing competitive environment;
- strengthening Coca-Cola FEMSA s selling capabilities in order to get closer to its clients, helping them satisfy the beverage needs of consumers;
- integrating Coca-Cola FEMSA s operations through advanced information technology systems;
- evaluating Coca-Cola FEMSA s bottled water strategy, in conjunction with The Coca-Cola Company, to maximize profitability across its market territories; and
- committing to building a best-in-class collaborative team, from top to bottom.

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

Coca-Cola FEMSA seeks to rationalize its distribution capacity to improve the efficiency of its operations. In 2003, as part of the integration process from the acquisition of Panamco, Coca-Cola FEMSA closed several under-utilized manufacturing centers and shifted distribution activities to other existing facilities. In each of

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Coca-Cola FEMSA s facilities, it seeks to increase productivity through infrastructure and process reengineering for improved asset utilization. Coca-Cola FEMSA s capital expenditure program includes investments in production and distribution facilities, bottles, cases, coolers and information systems. Coca-Cola FEMSA believes that this program will allow it to maintain its capacity and flexibility to innovate and to respond to consumer demand for non-alcoholic beverages.

Coca-Cola FEMSA continues with the integration process in its new Mexican territories, realizing synergies in back-office operations, manufacturing and procurement and has implemented closure and integration of facilities and headcount reductions. Coca-Cola FEMSA closed Panamco s Miami and Mexico City offices, consolidating its headquarter operations into its original office in Mexico City. In its new territories it has replicated some of its traditional management practices and systems and has introduced several packing presentations across its new territories, strengthening *Coca-Cola* brands and offering new options to consumers. Coca-Cola FEMSA has implemented new pricing architecture strategies, differentiating returnable presentations from non-returnables in order to achieve an adequate combination of price and convenience.

Finally, Coca-Cola FEMSA focuses on management quality as a key element of its growth strategies and remains committed to fostering the development of quality management at all levels. Both FEMSA and The Coca-Cola Company provide Coca-Cola FEMSA with managerial experience. To build upon these skills, Coca-Cola FEMSA also offers management training programs designed to enhance executives abilities, and cross-fertilization programs, whereby a growing team of multinational executives exchange experiences, know how and talent among its new and existing territories.

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Coca-Cola FEMSA Markets

The following map shows the locations of Coca-Cola FEMSA s territories, giving estimates in each case the population to which Coca-Cola FEMSA offers products, the number of retailers of its carbonated soft drinks and the per capita consumption of Coca-Cola FEMSA s soft drink products:

Per capita consumption data for a territory is determined by dividing sales volumes within the territory (in bottles, jugs, cans, powders and fountain containers) by the estimated population within such territory, and is expressed on the basis of the number of eight-ounce servings of Coca-Cola FEMSA s consumed annually per capita. In evaluating the development of local volume sales in its territories, Coca-Cola FEMSA and The Coca-Cola Company measure, among other factors, the per capita consumption of their carbonated beverages.

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Coca-Cola FEMSA Products

Coca-Cola FEMSA produces, markets and distributes the following *Coca-Cola* trademark beverages, proprietary brands and brands licensed from third parties, as of March 15, 2004:

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Colas:						
Coca-Cola	ü	ü	ü	ü	ü	ü
Coca-Cola light	ü	ü	ü	ü	ü	ü
Coca-Cola light lemon					ü	
Coca-Cola vanilla	ü		ü	ü		

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Flavored Soft Drinks:						
Beat	ü					
Canada Dry ginger ale		ü				
Chinotto				ü		
Chinotto light				ü		
Crush						ü
Delaware Punch	ü					
Fanta	ü	ü	ü		ü	ü
Fanta light					ü	ü
Fanta multi-flavors	ü	ü			ü	
Fresca	ü	ü				
Fresca pink grapefruit	ü					
Frescolita				ü		
Grapette				ü		
Hit				ü		
Kist(1)		ü				
Kola Román(2)			ü			
Kuat					ü	
Kuat laranja					ü	
Kuat light					ü	
Lift	ü	ü	ü			
Lift green apple	ü	ü				
Mundet multi-flavors(3)	ü					
Premio(1)			ü			
Prisco(3)	ü					
Quatro	ü		ü	ü		ü
Schweppes					ü	ü
Senzao	ü					
Sidral Mundet(3)	ü					
Sidral Mundet light(3)	ü					
Simba					ü	
Sintonia					ü	
Sprite	ü	ü	ü		ü	ü
Sprite light / Sprite Cero	ü				ü	ü

Taí	ü	ü

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	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Water:						
Alpina[(1)]		ü				
Ciel	ü					
Ciel Mineralizada	ü					
Club K[(1)]			ü			
Crystal[(1)]					ü	
Dasani		ü				
Kin						ü
Manantial[(1)]			ü			
Nevada				ü		
Pure Mountain[(1)]		ü				
Santa Clara[(1)]			ü			
Shangri-la[(1)]		ü				
Soda Clausen[(1)]			ü			
Soda Kin						ü

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Other Categories:[(4)]						
Black Fire						ü
Burn					ü	
Flash Power					ü	
Fruitopia		ü				
Hi-C		ü				ü
Juizz[(1)]		ü				
Kapo		ü				
Keloco[(1)]	ü					
Kin light	ü					
Malta Regional[(2)]				ü		
Mickey Aventuras	ü					
Nativa						ü
Nestea[(2)]	ü	ü		ü	ü	
Polar		ü				
Powerade	ü	ü	ü	ü		
Schweppes		ü		ü		
Shangri-la[(1)]		ü				
Sunfil		ü		ü		
Super 12[(1)]		ü				
Super Malta[(2)]		ü				

(1) Proprietary brand.
(2) Brand licensed from third parties other than The Coca-Cola Company.
(3) Brands licensed from FEMSA.
(4) Includes juices, sport drinks, dairy, malt, powder, iced tea and mixers.

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Sales Overview

Coca-Cola FEMSA measures sales volume in terms of unit cases. Unit case refers to 192 ounces of finished beverage product (24 eight-ounce servings) and, when applied to fountain syrup, powders and concentrate, refers to the volume of fountain syrup, powders and concentrate that is required to produce 192 ounces of finished beverage product. The following table illustrates Coca-Cola FEMSA s historical sales volumes for each of its territories. The sales volumes include the newly acquired Panamco territories only from May 2003.

	Sales Volume Year Ended December 31,		
	2003	2002	2001
	(millions of unit cases)		
Mexico	850.1	504.7	477.9
Central America	72.9		
Colombia	114.1		
Venezuela	110.1		
Brazil	176.6		
Argentina	126.6	115.6	129.9
Combined Volume	1,450.5	620.3	607.8

Product and Packaging Mix

Coca-Cola FEMSA s single most important brand is *Coca-Cola*, which accounted for 60.2% of its total consolidated sales volume in 2003. *Fanta, Sprite, Lift* and *Fresca*, Coca-Cola FEMSA s next largest brands in consecutive order, accounted for 5.1%, 3.1%, 2.4% and 2.1%, respectively, of sales volumes in 2003. Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages in each of its territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles made of PET. Presentation sizes for *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 20-liter multi-serving size. Coca-Cola FEMSA considers multi-serving size presentations as equal to or larger than 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multi-serving sizes. Coca-Cola FEMSA offers both returnable and non-returnable presentations, which allows it to offer different combinations of convenience and price to implement revenue management strategies and to target specific distribution channels and population segments in its territories. In addition, Coca-Cola FEMSA sells some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which we refer to as fountain. Coca-Cola FEMSA also sells bottled water products in jug presentations, which is a presentation larger than 17 liters, that have a much lower price per unit than its other beverage products.

In addition to *Coca-Cola* trademark beverages, Coca-Cola FEMSA produces, markets and distributes certain other proprietary brands and beverages licensed from third parties other than The Coca-Cola Company in a variety of presentations.

The characteristics of Coca-Cola FEMSA s territories are very diverse. Central Mexico is densely populated and has a large number of competing soft drink brands and higher per capita income as compared to the rest of Coca-Cola FEMSA s territories. Brazil and Argentina are densely populated but have lower per capita consumption of soft drink products as compared to Mexico. Portions of Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of soft drink products. In Venezuela, per capita income and consumption have been affected due to the economic and political unrest in recent years. In recent years, per capita income has been negatively affected by macroeconomic conditions in most of the countries where Coca-Cola FEMSA operates.

The following discussion analyzes Coca-Cola FEMSA s product and packaging mix by territory. The volume data presented is for the years 2002 and 2003 and includes the newly acquired territories for all of 2002 and the first four months of 2003 prior to the acquisition of Panamco. As discussed above, Coca-Cola FEMSA

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did not acquire these territories until May 6, 2003. Nonetheless, Coca-Cola FEMSA believes that presenting the prior periods in this section provides a more complete illustration of the characteristics of its territories than would be possible based solely on information from the last eight months of 2003. It has not included information for periods prior to 2002. It has presented above under Sales Overview its actual sales volumes by territory for the three years ended December 31, 2001, 2002 and 2003, which include the newly acquired territories solely for eight months of 2003.

Mexico

Coca-Cola FEMSA s product portfolio consists of *Coca-Cola* trademark beverages, and since 2001 has included third party *Mundet* trademark beverages. In 2003, it expanded its core brand portfolio line launching the flavored soft drinks *Fanta multi-flavors, Fresca pink grapefruit* and *Lift green apple*. It also introduced *Coca-Cola vanilla* in its Mexican territories, strengthening the cola category. Soft drink per capita consumption in Mexico during 2003 was 483 eight-ounce servings.

The following table highlights historical sales volume and mix in Mexico for Coca-Cola FEMSA s products:

	Year Ended December 31,	
	2003	**2002**
	(millions of unit cases)	
Product Sales Volumes		
Coca-Cola Trademark Beverages	985.4	964.6
Other Beverages	16.2	15.9
Total	1,001.6	980.5
% Growth	2.2%	
	(in percentages)	
Unit Case Volume Mix by Category		
Colas	59.8%	60.8%
Flavored Soft Drinks	18.7	17.2
Total Carbonated Soft Drinks	78.5	78.0
Water[(1)]	20.9	20.7
Other Categories	0.6	1.3
Total	100.0%	100.0%
	(in percentages)	
Product Mix by Presentation		
Returnable	27.9%	28.2%
Non-returnable	54.9	53.6
Fountain	1.3	1.3

Jug	15.9	16.9
Total	100.0%	100.0%

(1) Includes jug volumes.

Coca-Cola FEMSA s most popular soft drink presentations are the 2.5-liter and 2.0-liter returnable plastic bottles, the 0.6-liter non-returnable plastic contour bottle, and the 2.5-liter and the 2.0-liter non-returnable plastic bottle, which combined accounted for more than 60% of its total soft drink sales volume in 2003 in Mexico. Since 1995, Coca-Cola FEMSA has introduced a number of new presentations in Mexico. These include 2.5-liter and 2.0-liter returnable plastic bottles, 1.0-liter non-returnable plastic bottles, eight-ounce non-returnable glass bottles, 0.25-liter non-returnable plastic bottles and 0.6-liter plastic contour bottles to replace the 0.5-liter non-returnable glass and plastic presentations. In 2003, Coca-Cola FEMSA launched new 2.5-liter returnable and non-returnable presentations.

Multi-serving presentations are an important component of Coca-Cola FEMSA s product mix. In 2003, multi-serving presentations represented 67% of its total soft drink sales volumes in Mexico, as compared to 64% in 2002. Coca-Cola FEMSA expects that demand for multi-serving presentations will continue increasing. Coca-Cola FEMSA believes that the popularity of multi-serving presentations is primarily attributable to the lower price per ounce of product in larger presentations.

In the past, the packaging trend in the soft drink industry in Mexico had moved toward non-returnable presentations. However, due to the entrance of low price brands in multi-serving size presentations, Coca-Cola FEMSA has refocused its packaging mix strategy to reinforce its sales of multi-serving size returnable packages, and as a result non-returnable presentations remained almost flat in 2003 as compared to 2002. Returnable plastic and glass presentations offer consumers a more affordable, although less convenient, product, and Coca-Cola FEMSA believes returnable packages present an opportunity for Coca-Cola FEMSA to attract new customers and maintain customer loyalty, because they make *Coca-Cola* trademark beverages more attractive to price-sensitive consumers. The price of a 2.5-liter returnable package is approximately 30% less than the same size non-returnable package. These returnable products are mainly sold to small store retailers, representing the largest distribution channel in the Mexican market, that benefit from returnable bottles lower price per ounce of product, allowing them to compete with larger supermarkets. Coca-Cola FEMSA believes that its continued commitment to returnable bottle availability will allow it to compete with low-price entrants to the Mexican soft drink market.

Total sales volumes reached 1,001.6 million unit cases in 2003, increasing 2.2% compared to 2002, including a 2.9% carbonated soft drink volume growth during the same period. The volume growth was mainly driven by (1) the solid performance of Coca-Cola FEMSA s new flavored brands including *Fanta multi-flavors, Fresca pink grapefruit* and *Lift green apple*, accounting for approximately 70% of the incremental volumes during the year, (2) the incremental sales volumes reached by *Ciel* still water in a 5.0-liter presentation, and (3) volume growth from *Coca*-Cola brand beverages. This volume growth was partially offset by a decline in jug water volume, mainly in the 19.0-liter water jug presentation, the result of new revenue management initiatives intended to improve the profitability of Coca-Cola FEMSA s bottled water business in its new territories, and to a lesser extent to the increased size of multi-serving presentations.

In 2003, product and packaging innovation helped Coca-Cola FEMSA weather a relatively weak economic environment and increased competition from low price soft drink brands in multi-serving size presentations, which have increased their presence and product alternatives in certain areas of Coca-Cola FEMSA s Mexican territories. With the introduction of its new multi-serving size 2.5-liter returnable and non-returnable presentations, for the *Coca-Cola* brand and selected flavors, Coca-Cola FEMSA reduced the price gap per ounce versus low price brands during 2003, enhancing the value proposition for its customers.

Central America

Coca-Cola FEMSA s product sales in Central America consist predominantly of *Coca-Cola* trademark beverages. During 2003 it launched the *Dasani* water brand in one of its Central American territories. Soft drink per capita consumption in Central America during 2003 was 131 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
	(millions of unit cases)	
Product Sales Volumes		
Coca-Cola Trademark Beverages	99.6	93.3
Other Beverages	7.7	6.8
Total	107.3	100.1
% Growth	7.2%	
	(in percentages)	
Unit Case Volume Mix by Category		
Colas	69.4%	69.6%
Flavored Soft Drinks	24.7	23.7
Total Carbonated Soft Drinks	94.1	93.3
Water	4.2	4.0
Other Categories	1.7	2.7
Total	100.0%	100.0%
	(in percentages)	
Product Mix by Presentation		
Returnable	51.8%	50.9%
Non-returnable	42.9	43.4
Fountain	5.3	5.7
Jug		
Total	100.0%	100.0%

In Central America, Coca-Cola FEMSA sells the majority of its sales volume through small retailers. In 2003, multi-serving presentations represented 47.5% of its total soft drink sales volumes in Central America. It also launched a 2.0-liter returnable presentation in Central America for *Coca-Cola* brand and selected flavor brands in 2003 to take advantage of the trend to larger presentations.

Total sales volumes reached 107.3 million unit cases in 2003, increasing 7.2% compared to 2002, including 8.1% growth in carbonated soft drink sales volumes during the same period. The sales volume growth was mainly driven by the solid performance of the cola category, increasing almost 7% during the year, and representing 66% of the incremental volumes, especially in Coca-Cola FEMSA s territories in Guatemala and Nicaragua, and the incremental sales volume reached by the carbonated soft drink flavor segment, which represented the majority of the balance.

Colombia

Coca-Cola FEMSA s product portfolio in Colombia consists of *Coca-Cola* trademark beverages, certain products sold under proprietary trademarks, as well as sales of the *Kola Román* brand, which it licenses from a third party. Soft drink per capita consumption in Colombia during 2003 was 80 eight-ounce servings.

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

	Year Ended December 31,	
	2003	2002
	(millions of unit cases)	
Product Sales Volumes		
Coca-Cola Trademark Beverages	133.5	139.0
Other Beverages	38.3	46.0
Total	171.8	185.0
% Growth	(7.1)%	
	(in percentages)	
Unit Case Volume Mix by Category		
Colas	62.4%	60.4%
Flavored Soft Drinks	22.3	21.8
Total Carbonated Soft Drinks	84.7	82.2
Water[(1)]	15.1	17.5
Other Categories	0.2	0.3
Total	100.0%	100.0%
	(in percentages)	
Product Mix by Presentation		
Returnable	53.4%	53.8%
Non-returnable	36.8	35.3
Fountain	3.0	3.0
Jug	6.8	7.9
Total	100.0%	100.0%

(1) Includes jug volumes.

The Colombian market is characterized by lower per capita consumption and relatively lower levels of multi-serving presentations. In 2003, multi-serving presentations represented 45.7% of Coca-Cola FEMSA s total soft drink sales volumes in Colombia. Coca-Cola FEMSA is continuing to evaluate the right product, package and pricing architecture for its portfolio of brands in Colombia.

Total sales volumes amounted to 171.8 million unit cases in 2003, decreasing 7.1% compared to 2002, including a 4.4% carbonated soft drink volume decline during the same period. The volume decline was mainly driven by a reduction in the production of water sold in less profitable packages, which accounted for almost 50% of the volume decline during the year. Carbonated soft drinks accounted for the balance.

Venezuela

Coca-Cola FEMSA s product portfolio in Venezuela consists predominantly of *Coca-Cola* trademark beverages. Soft drink per capita consumption in Venezuela during 2003 was 123 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
	(millions of unit cases)	
Product Sales Volumes		
Coca-Cola Trademark Beverages	148.6	160.6
Other Beverages	3.0	2.3
Total	151.6	162.9
% Growth	(6.9)%	
	(in percentages)	
Unit Case Volume Mix by Category		
Colas	57.0%	48.2%
Flavored Soft Drinks	29.2	34.0
Total Carbonated Soft Drinks	86.2	82.2
Water[(1)]	8.2	10.6
Other Categories	5.6	7.2
Total	100.0%	100.0%
	(in percentages)	
Product Mix by Presentation		
Returnable	36.4%	39.1%
Non-returnable	57.6	52.5
Fountain	2.7	3.0
Jug	3.3	5.4
Total	100.0%	100.0%

(1) Includes jug volumes.

During January of 2003, political unrest in Venezuela due to a national strike made it practically impossible for Panamco to run its Venezuelan operation on a regular basis. Supply shortages during the first quarter and a severe economic recession significantly affected volume performance during 2003. Coca-Cola FEMSA re-introduced the one-liter returnable glass presentation for the *Coca-Cola* brand in 2003, which it believes had a positive impact on sales volumes in 2003.

Total sales volumes decreased in 2003 to 151.6 million unit cases, including a decrease of 2.3% in carbonated soft drink volumes. Carbonated soft drink flavors accounted for almost 60% of the sales volume decline during the year, and still bottled water accounted for the majority of the balance, driven by a change of consumption habits of the population toward tap water due to the country s economic recession.

Brazil

Coca-Cola FEMSA s product portfolio in Brazil consists mainly of *Coca-Cola* trademark beverages. Pursuant to an agreement with Cervejarias Kaiser, Coca-Cola FEMSA distributes the *Kaiser* brands of beer, which represented 18.2% of its sales volumes in Brazil in 2003. During 2003, it expanded its product lines, introducing *Coca-Cola light lemon, Kuat laranja* and *Sintonia*. Soft drink per capita consumption in Brazil during 2003 was 189 eight-ounce servings.

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

	Year Ended December 31,	
	2003	**2002**
	(millions of unit cases)	
Product Sales Volumes		
Coca-Cola Trademark Beverages	206.1	239.5
Other Beverages	59.0	83.1
Total	265.1	322.6
% Growth	(17.8)%	
	(in percentages)	
Unit Case Volume Mix by Category		
Colas	53.4%	47.5%
Flavored Soft Drinks	23.7	26.7
Total Carbonated Soft Drinks	77.1	74.2
Water	4.1	5.1
Other Categories[(1)]	18.8	20.7
Total	100.0%	100.0%
	(in percentages)	
Product Mix by Presentation		
Returnable	11.1%	11.9%
Non-returnable	85.1	84.1
Fountain	3.8	4.0
Jug		
Total	100.0%	100.0%

(1) Includes beer.

During 2003, Coca-Cola FEMSA initiated a packaging differentiation strategy intended to diversify its operation from 2.0-liter PET non-returnable packages and cans, which together accounted for almost 80% of sales volumes in 2002 and the beginning of 2003. Coca-Cola FEMSA launched more than six different packaging presentations during 2003, including a new 12-ounce non-returnable glass bottle and a new 200-milliliter returnable glass bottle in order to offer convenience and affordability for the on-premise segment. By selling more profitable stock keeping units or SKUs, Coca-Cola FEMSA intends to strengthen its packaging and brand portfolio, and enhance its pricing architecture in order to increase the profitability of the segment.

Total sales volumes amounted to 265.1 million unit cases in 2003, decreasing 17.8% compared to 2002 volumes, including a 14.7% decline in non-profitable carbonated beverage sales volumes during the same period. The majority of the volume decline during 2003 came from 2.0-liter non-returnable presentations, especially for low margin products like *Simba* and *Taí*, as Coca-Cola FEMSA tried to reach a better price value combination by shifting to more profitable presentations. Carbonated soft drinks accounted for 60% of the volume decline during 2003, beer represented 30% and bottled water represented the balance.