MEXICAN ECONOMIC DEVELOPMENT INC
Form 20-F
June 29, 2006

As filed with the Securities and Exchange Commission on June 29, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

Commission file number 1-14814

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

(Jurisdiction of Incorporation or Organization)

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(Address of Principal Executive Offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 10 BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value	New York Stock Exchange

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2005 was:

720,392,590	BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value. The BD Units represent a total of 720,392,590 Series B Shares, 1,440,785,180 Series D-B Shares and 1,440,785,180 Series D-L Shares.
472,349,500	B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 2,361,747,500 Series B Shares.

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

x Yes ¨ No

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

¨ Yes x No

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

x Yes ¨ No

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

Large Accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 x Item 18

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

¨ Yes x No

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INTRODUCTION

References

The terms FEMSA, our company, we, us and our, are used in this annual report 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 Coca-Cola FEMSA, S.A. de C.V., as Coca-Cola FEMSA, our subsidiary FEMSA Cerveza, S.A. de C.V., as FEMSA Cerveza, and our subsidiary FEMSA Comercio, S.A. de C.V., as FEMSA Comercio.

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

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 10.6275 to US$ 1.00, the noon buying rate for Mexican pesos on December 31, 2005 as published by the Federal Reserve Bank of New York. On March 31, 2006, this exchange rate was Ps. 10.8980 to US$ 1.00. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 2001. In our previous public disclosures, we presented U.S. dollar amounts based on the exchange rate quoted by dealers to FEMSA for the settlement of obligations in foreign currencies at the end of the applicable period.

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

Per capita growth rates and population data have been computed based upon statistics prepared by the *Instituto Nacional de Estadística, Geografía e Informática* of Mexico (the National Institute of Statistics, Geography and Information, which we refer to as the Mexican Institute of Statistics), the Federal Reserve Bank of New York, *Banco de México* (the Bank of Mexico) and upon our estimates.

Forward-Looking Information

This annual report contains words, such as believe, expect and 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 conditions 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.

ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

This annual report includes, under Item 18, our audited consolidated balance sheets as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in stockholders equity and changes in financial position for the years ended December 31, 2005, 2004 and 2003. Our audited consolidated financial statements are prepared in accordance with accounting principles generally accepted in Mexico, or Mexican GAAP. Mexican GAAP differs in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP.

Notes 27 and 28 to our audited consolidated financial statements provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to our company, together with a reconciliation to U.S. GAAP of net income and stockholders equity as well as U.S. GAAP consolidated balance sheets, statements of income, changes in stockholders equity and cash flows for the same periods presented for Mexican GAAP purposes. In the reconciliation to U.S. GAAP, we present our subsidiary Coca-Cola FEMSA, which is a consolidated subsidiary for purposes of Mexican GAAP, under the equity method for U.S. GAAP purposes, due to the substantive participating rights of The Coca-Cola Company as a minority shareholder in Coca-Cola FEMSA.

The effects of inflation accounting under Mexican GAAP have not been reversed in the reconciliation to U.S. GAAP. See note 27 to our audited consolidated financial statements.

Our subsidiary, Coca-Cola FEMSA, acquired Corporación Interamericana de Bebidas, S.A. de C.V., known at the time of acquisition as Panamerican Beverages, Inc. and which we refer to as Panamco, on May 6, 2003. Panamco is included in our audited consolidated financial statements since May 2003 but is not included prior to this date.

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by, our audited consolidated financial statements and the notes to those statements. 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.

Selected Consolidated Financial Information

	Year Ended December 31,					
	2005[1]	**2005**	**2004**	**2003[2]**	**2002**	**2001**
	(in millions of U.S. dollars and millions of Mexican pesos at December 31, 2005, except for per share data, the weighted average number of shares outstanding and percentages)					
Income Statement Data:						
Mexican GAAP:						
Total revenues	$ 9,935	Ps. 105,582	Ps. 96,833	Ps. 82,496	Ps. 59,996	Ps. 57,042
Income from operations	1,467	15,587	14,236	13,073	10,542	9,557
Taxes[3]	431	4,584	2,533	3,785	4,090	3,337
Change in accounting principle	4	46				(33)
Consolidated net income	768	8,158	9,558	5,067	5,208	5,669
Net majority income	522	5,549	6,027	3,408	3,203	3,856
Net minority income	246	2,609	3,531	1,659	2,005	1,813
Net majority income:[4]						
Per Series B Share	0.08	0.87	1.01	0.57	0.54	0.65
Per Series D Share	0.10	1.09	1.27	0.72	0.67	0.81
Weighted average number of shares outstanding (in millions):						
Series B Shares	2,944.9	2,944.9	2,739.2	2,739.2	2,739.2	2,739.2
Series D Shares	2,753.4	2,753.4	2,561.0	2,561.0	2,561.0	2,561.0
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%	53.89%	53.89%	53.89%
U.S. GAAP:						
Total revenues	$ 5,493	Ps. 58,382	Ps. 51,461	Ps. 46,104	Ps. 41,611	Ps. 40,051
Income from operations	602	6,401	5,568	4,982	5,131	4,254
Participation in Coca-Cola FEMSA s earnings[5]	191	2,035	2,720	1,170	1,455	1,327
Change in accounting principle						(26)
Minority interest			485	397	642	514
Net income	502	5,333	6,809	3,555	3,484	3,592
Net income:[4]						
Per Series B Share	0.08	0.84	1.15	0.60	0.59	0.61
Per Series D Share	0.10	1.04	1.43	0.75	0.73	0.76
Balance Sheet Data:						
Mexican GAAP:						
Total assets	$ 11,856	Ps. 125,998	Ps. 125,075	Ps. 115,692	Ps. 68,119	Ps. 57,927
Current liabilities	1,867	19,839	24,393	18,572	13,386	9,736
Long-term debt[6]	2,798	29,732	37,502	36,392	11,078	8,053
Other long-term liabilities	868	9,235	9,302	10,355	6,367	6,026
Capital stock	466	4,953	4,612	4,612	4,612	4,612
Total stockholders equity	6,323	67,192	53,878	50,373	37,288	34,112
Majority interest	4,503	47,851	36,660	31,187	26,118	24,095
Minority interest	1,820	19,341	17,218	19,186	11,170	10,017

Selected Consolidated Financial Information

	2005[1]	2005	2004	2003[2]	2002	2001
		Year Ended December 31, (in millions of U.S. dollars and millions of Mexican pesos at December 31, 2005, except for per share data, the weighted average number of shares outstanding and percentages)				
U.S. GAAP:						
Total assets	$ 8,594	Ps. 91,335	Ps. 85,783	Ps. 74,863	Ps. 72,345	Ps. 63,864
Current liabilities	888	9,437	15,743	10,793	12,629	9,026
Long-term debt[6]	1,323	14,058	15,055	7,728	7,496	5,913
Other long-term liabilities	405	4,301	3,214	5,121	4,759	3,597
Minority interest	4	48	52	5,527	5,905	5,551
Capital stock	466	4,953	4,612	4,612	4,612	4,612
Stockholders equity	5,974	63,491	51,719	45,694	41,556	39,777
Other information:						
Mexican GAAP:						
Depreciation[7]	$ 390	Ps. 4,147	Ps. 3,882	Ps. 3,435	Ps. 2,612	Ps. 2,629
Capital expenditures[8]	612	6,505	7,147	7,456	6,468	5,645
Operating margin[9]	14.8%	14.8%	14.7%	15.8%	17.6%	16.8%
U.S. GAAP:						
Depreciation[7]	$ 185	Ps. 1,967	Ps. 1,878	Ps. 2,169	Ps. 1,821	Ps. 1,667
Operating margin[9]	11.0%	11.0%	10.8%	10.8%	12.3%	10.6%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps.10.6275 to US$ 1.00 solely for the convenience of the reader.
(2) Our 2003 financial information is not comparable to prior and subsequent periods due to the acquisition of Panamco in May 2003 by our subsidiary Coca-Cola FEMSA. See Item 5 Operating and Financial Review and Prospectus Comparability of Information Presented-Panamco Acquisition.
(3) Includes income tax, tax on assets and employee profit sharing.
(4) 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 Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per share of U.S. GAAP. The weighted average number of shares outstanding and allocation of earnings are the same as Mexican GAAP.
(5) Coca-Cola FEMSA is included under the equity method for U.S. GAAP, as discussed in note 27 (a) to our audited consolidated financial statements.
(6) Includes long-term debt minus the current portion of long-term debt.
(7) Includes bottle breakage for Coca-Cola FEMSA.
(8) Includes investments in property, plant and equipment, intangible and other assets.
(9) Operating margin is calculated by dividing income from operations by total revenues.

Dividends

We have historically paid dividends per BD Unit (including in the form of ADSs) approximately equal to or greater than 1% of the market price on the date of declaration, subject to changes in our results of operations and financial position, including due to extraordinary economic events and to the factors described in Risk Factors that affect our financial condition 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. 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 amounts that were actually paid on each of the respective payment dates for the 2001 to 2005 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared[(1)]	Per Series B Share Dividend	Per Series B Share Dividend	Per Series D Share Dividend	Per Series D Share Dividend
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
May 31, 2005	2004	Ps. 659,997,941	Ps. 0.1112	$ 0.0102	Ps. 0.138950	$ 0.0127
June 15, 2006	2005	Ps. 986,000,000	Ps. 0.1475	$ 0.0129	Ps. 0.184400	$ 0.0161

(1) The aggregate amount of dividend declared is determined by the per series dividend amount multiplied by (a), for 2001 through 2004, 2,737,740,090 Series B Shares and 2,559,570,360 Series D Shares, and (b), for 2005, 3,082,140,090 Series B Shares and 2,881,570,360 Series D Shares, which is in each case the number of shares outstanding at the date each dividend is declared.

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 paid in 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. Dividends may only be paid if net profits are sufficient to offset losses from prior fiscal years.

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 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 American Depositary Shares, or 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, restrictions on conversion of Mexican pesos into foreign currencies and exchange rate fluctuations may affect the ability of holders of our ADSs to receive U.S. dollars and 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 any assurance that the Mexican government will not institute a restrictive exchange control policy in the future.

Exchange Rate Information

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

Period	Exchange Rate			
	High	Low	Average(1)	Period End
2001	Ps. 9.97	Ps. 8.95	Ps. 9.34	Ps. 9.16
2002	10.43	9.00	9.66	10.43
2003	11.41	10.11	10.80	11.24
2004	11.64	10.81	11.29	11.15
2005	11.41	10.41	10.89	10.63

(1) Average month-end rates.

	Exchange Rate		
	High	Low	Period End
2004:			
First Quarter	Ps. 11.25	Ps. 10.81	Ps. 11.18
Second Quarter	11.64	11.16	11.54
Third Quarter	11.60	11.35	11.39
Fourth Quarter	11.54	11.11	11.15
2005:			
First Quarter	Ps. 11.41	Ps. 10.98	Ps. 11.18
Second Quarter	11.23	10.76	10.77
Third Quarter	10.90	10.58	10.79
Fourth Quarter	10.94	10.41	10.63
December	Ps. 10.77	Ps. 10.41	Ps. 10.63
2006:			
January	Ps. 10.64	Ps. 10.44	Ps. 10.44
February	10.53	10.43	10.45
March	10.95	10.46	10.90
April	11.16	10.86	11.09
May	11.31	11.84	11.29
June(1)	11.46	11.28	11.42

(1) From the period beginning June 1 until June 15, 2006.

Mexico has a free foreign exchange market and, since December 1994, the Mexican government has not intervened to maintain the value of the Mexican peso against the U.S. dollar. The Mexican peso declined in 1998 as the foreign exchange markets experienced volatility as a result of the financial crises in Asia and Russia and the financial turmoil in countries such as Brazil and Venezuela. The Mexican peso remained relatively stable from 1999 until the fall of 2001. In late 2001 and early 2002, the Mexican peso appreciated considerably against the U.S. dollar and, more strongly, against other foreign currencies. From the second quarter of 2002 and until the end of 2003, the Mexican peso depreciated in value. The Mexican peso remained relatively stable in 2004 and appreciated from the second quarter of 2005 through February 2006. Since March 2006 and as of June 15, 2006, the Mexican peso has depreciated due to political uncertainty relating to the elections that will take place in July 2006 in Mexico and as a result of market growth expectations with regard to international short-term interest rates and long-term interest rates in the U.S. We can make no assurance that the Mexican government will maintain its current policies with regard to the Mexican peso or that the Mexican peso will not depreciate significantly in the future.

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 96% of Coca-Cola FEMSA s sales volume in 2005 was derived from sales of *Coca-Cola* trademark beverages. In each of its territories, Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages through standard bottler agreements. Through its rights under the bottler agreements and as a large shareholder, The Coca-Cola Company has the ability to exercise substantial influence over the conduct of Coca-Cola FEMSA s business.

Under Coca-Cola FEMSA s bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. In 2005, The Coca-Cola Company informed Coca-Cola FEMSA that it will gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. Coca-Cola FEMSA prepares a three-year general business plan that is submitted to its board of directors for approval. The Coca-Cola Company may require that Coca-Cola FEMSA demonstrate its financial ability to meet its 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 expenses 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 authorization 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, although Coca-Cola FEMSA holds the exclusive right to sell *Coca-Cola* trademark beverages within its 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. Coca-Cola FEMSA s bottler agreements for Mexico expire in 2013 and 2015 and are renewable in each case for ten-year terms. Coca-Cola FEMSA s bottler agreements for Brazil expired in December 2004, and its bottler agreements for Guatemala, Nicaragua and Colombia expire in June 2006. Coca-Cola FEMSA s bottler agreement for *Coca-Cola* trademark beverages in Venezuela expires in August 2006. Coca-Cola FEMSA is currently in the process of negotiating renewals of these agreements. Coca-Cola FEMSA s remaining territories are governed by bottler agreements that expire after 2006 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. 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 its remaining shareholders.

The Coca-Cola Company has significant influence on the conduct of Coca-Cola FEMSA s business. The Coca-Cola Company indirectly owns 39.6% of Coca-Cola FEMSA s outstanding capital stock, representing 46.4% of its capital stock with full voting rights. The Coca-Cola Company is entitled to appoint four of Coca-Cola FEMSA s 18 directors and certain of its executive officers and, except under limited circumstances, has the power to veto all actions requiring approval by 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 determine the outcome of all actions requiring

approval of Coca-Cola FEMSA s shareholders. See Item 10 Additional Information Material Contracts Coca-Cola FEMSA Shareholders Agreement. 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 its remaining shareholders.

Coca-Cola FEMSA has significant transactions with affiliates, particularly The Coca-Cola Company, that 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 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 it may borrow up to US$ 250 million for working capital and other general corporate purposes. See Item 10 Additional Information Material Contracts Coca-Cola FEMSA Shareholders Agreement. In addition, Coca-Cola FEMSA has entered into cooperative marketing arrangements with The Coca-Cola Company. 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.

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 carbonated soft drinks such as Pepsi products, 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. In Mexico, Coca-Cola FEMSA faces competition from water beverage companies such as Danone, with its local brand *Aguas Santa María,* from Pepsico in the sport drink market, with its *Gatorade* brand, and from a diverse array of local fruit juice beverage companies. 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.

Coca-Cola FEMSA s principal competitor in Mexico is The Pepsi Bottling Group, or PBG. PBG is the largest bottler of Pepsi products worldwide and competes with *Coca-Cola* trademark beverages. 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 Companhia de Bebidas das Américas, commonly referred to as AmBev, the largest brewer in Latin America and a subsidiary of InBev S.A., which sells Pepsi products, in addition to a portfolio that includes local brands with flavors such as guaraná and proprietary beers. In each of its territories, Coca-Cola FEMSA competes with Pepsi bottlers and with various other bottlers and distributors of nationally and regionally advertised soft drinks. In certain territories, Coca-Cola FEMSA competes with producers of soft drink flavors that have a strong local presence.

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. See Item 4 Information

on the Company Regulatory Matters Water Supply Law. 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 you 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, packaging materials and sweeteners. Prices for concentrate are determined by The Coca-Cola Company pursuant to Coca-Cola FEMSA s bottler agreements as a percentage of the weighted average retail price, net of applicable taxes. In 2005, The Coca-Cola Company informed Coca-Cola FEMSA that it will gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. The prices for Coca-Cola FEMSA s 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 it. 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 resin and ingots to make plastic bottles, finished plastic bottles and aluminum cans, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currency of any country in which Coca-Cola FEMSA operates, particularly against the Mexican peso. See Item 4 Information on the Company Coca-Cola FEMSA Raw Materials.

After concentrate, packaging and sweeteners constitute the largest portion of Coca-Cola FEMSA s raw material costs. Coca-Cola FEMSA s most significant packaging raw material costs arise from the purchase of resin and plastic ingots to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are tied to crude oil prices. In Mexico, the prices that Coca-Cola FEMSA paid for resin increased on average by more than 25% in U.S. dollars in 2005. 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 it to pay in excess of international market prices for sugar. Coca-Cola FEMSA expects sugar prices to increase in 2006 in all of the countries in which it operates other than Mexico. In Venezuela, Coca-Cola FEMSA has experienced sugar shortages that have adversely affected its operations. These shortages were due to insufficient domestic production to meet demand and current restrictions on sugar imports.

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

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 its products may have a material adverse effect on Coca-Cola FEMSA s business, financial condition, prospects and results of operations. In 2003, Mexico implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweetener. See Item 8 Financial Information Legal Proceedings. Certain countries in Central America, Argentina and Brazil have also imposed taxes on carbonated soft drinks. See Item 4 Information on the Company Coca-Cola FEMSA Taxation of Soft Drinks. We cannot assure you that any governmental authority in any country where Coca-Cola FEMSA operates will not impose or increase taxes on its products 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, taxation, health 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 its financial condition, business and results of operations. In particular, environmental standards are becoming more stringent 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 in the future may have an adverse effect on Coca-Cola FEMSA s 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. We cannot assure that governmental authorities in any country where Coca-Cola FEMSA operates will not impose statutory price controls or voluntary price restraints in the future.

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

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

Uncertainty in commodity prices of raw materials used by FEMSA Cerveza may result in increased costs and adversely affect its results of operations.

FEMSA Cerveza purchases a number of commodities for the production of its products (principally aluminum, 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. Market prices for aluminum increased by approximately 9% in 2005. Because aluminum prices are denominated in U.S. dollars, an appreciation of the U.S. dollar against the Mexican peso would increase the cost to FEMSA Cerveza as a percentage of net sales, as its sales are generally in Mexican pesos. There can be no assurance that FEMSA Cerveza will be able to recover increases in the cost of raw materials. See Item 4. Information on the Company FEMSA Cerveza Raw Materials. An increase in raw materials costs would adversely affect its results of operations.

FEMSA Cerveza s sales in the United States depend on distribution arrangements with Heineken USA.

Heineken USA Inc., or Heineken USA, is the exclusive importer, marketer and distributor of FEMSA Cerveza s beer brands in the United States under a three-year agreement that expires on December 31, 2007. Accordingly, FEMSA Cerveza s exports to the United States during the remainder of the three-year term of the distributor agreement will depend to a significant extent on Heineken USA s performance under this agreement. 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. See Item 4. Information on the Company FEMSA Cerveza The Mexican Beer Market.

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 and represented only 2% of the Mexican beer market in terms of sales volume in 2005. 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. Increased import competition, however, could result from potential new entrants to the Mexican beer market or from a change in consumer preferences in Mexico and could lead to greater competition in general, which may adversely affect FEMSA Cerveza s business, financial position and results of operations. See Item 4. Information on the Company FEMSA Cerveza The Mexican Beer Market.

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 or cold beer regulation and governmental actions relating to the beer industry practice of tied-customer arrangements, which are agreements with retailers to sell and promote a beer producer s products, may have a material adverse effect on FEMSA Cerveza s business, financial position and results of operations.

Federal regulation of beer consumption in Mexico is primarily effected through a 25% excise tax, which starting January 2006 will include an alternative minimum Mexican peso amount of Ps. 3.00 per liter for non-returnable presentations and Ps. 1.74 per liter for returnable presentations, 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. See Item 4. Information on the Company FEMSA Cerveza The Mexican Beer Market.

FEMSA Cerveza may not be able to improve performance in its newly acquired Brazilian operations.

FEMSA Cerveza acquired 68% of the Brazilian brewer Cervejarias Kaiser Brasil S.A., or Kaiser, on January 13, 2006. Prior to the acquisition, Kaiser s profitability and market position had declined as a result of operational changes by the prior owner and increased competition in the Brazilian beer market. Kaiser s operating margins are therefore lower than those of FEMSA Cerveza s Mexican operations. FEMSA Cerveza is currently in the process of implementing a number of initiatives to seek to improve Kaiser s performance,

although FEMSA Cerveza has not previously conducted operations in the Brazilian beer market, where market conditions differ significantly from Mexico. FEMSA Cerveza s initiatives may not be successful in improving Kaiser s performance, which would adversely affect FEMSA Cerveza s sales growth and operating margins.

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 position and results of operations.

FEMSA Comercio

Competition from other retailers in Mexico could adversely affect FEMSA Comercio 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, among others. In particular, the Super Extra chain is owned and managed by Grupo Modelo, our main competitor in the Mexican beer market, and since 2003 Super Extra has aggressively expanded the number of its stores. Oxxo convenience stores also face competition from numerous small chains of retailers across Mexico. In the future, Oxxo stores may face additional competition from other retailers that do not currently participate in the convenience store sector or from new market entrants. Increased competition may limit the number of new locations available to FEMSA Comercio and require FEMSA Comercio to modify its product offering or pricing. In addition, consumers may prefer alternative products or store formats offered by competitors. As a result, FEMSA Comercio s results of operations and financial position may be adversely affected by competition in the future.

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 FEMSA Comercio s 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 FEMSA Comercio s results of operations.

FEMSA Comercio may not be able to maintain its historic growth rate.

FEMSA Comercio increased the number of Oxxo stores at an average annual rate in excess of 24% from 2001 to 2005. The growth in the number of Oxxo stores has driven growth in total revenue and operating income at FEMSA Comercio over the same period. As the overall number of stores increases, percentage growth in the number of Oxxo stores is likely to decrease. In addition, as convenience store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same store sales, average ticket and store traffic. As a result, FEMSA Comercio s future results of operations and financial condition may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and operating income.

Risks Related to Our Principal Shareholders and Capital Structure

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 May 31, 2006, a voting trust, the participants of which are members of five families, owned 37.08% of our capital stock and 71.75% of our capital stock with full voting rights, consisting of the Series B Shares. Consequently, the voting trust has 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 board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. See Item 7. Major Shareholders and Related Party Transactions and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.

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 the form of our corporate organization, 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 Item 7. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.

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

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

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 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. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our shares or ADSs located in the United States to exercise any preemptive rights in any future capital increases unless (1) we file a registration statement with the Securities and Exchange Commission, or SEC, with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. 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 Mexican law preemptive rights may not be sold by the ADS depositary as a separate instrument, and the rights, therefore, may not be disposed of by the ADS depositary for the benefit of holders of ADSs. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. See Item 10. Additional Information Preemptive Rights.

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 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 against directors 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 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.

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 ADSs.

FEMSA is a holding company. Accordingly, FEMSA s cash flows are principally derived from dividends, interest and other distributions made to FEMSA by its subsidiaries. Currently, FEMSA s subsidiaries do not have contractual obligations that require them to pay dividends to FEMSA. In addition, 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 debt and other obligations.

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic segment. For the year ended December 31, 2005, 82% of our consolidated total revenues 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 position.

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, or exchange controls affecting, 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 debt, which constituted 10.1% of our total debt as of December 31, 2005 (including the effect of interest rate swaps), and have an adverse effect on our financial position and results of operations.

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

A depreciation of the Mexican peso relative to the U.S. dollar would increase the cost to us of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and thereby may negatively affect our financial position and results of operations. We generally do not hedge our exposure to the U.S. dollar with respect to the Mexican peso and other currencies. A severe devaluation or depreciation of the Mexican peso may also result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future, as it has done in the past. Currency fluctuations may have an adverse effect on our financial position, 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 *Partido Acción Nacional* (the National Action Party) or PAN, won the presidency. Although his victory ended more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (the Institutional Revolutionary Party) 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, which is expected to continue at least until the Mexican elections in July 2006, has impeded the progress of structural reforms in Mexico, which may adversely affect economic conditions in Mexico, and consequently, our results of operations.

The Mexican elections will result in a change in administration, as presidential reelection is not permitted in Mexico. The presidential race is highly contested among a number of different parties, including the PRI, the PAN and the *Partido de la Revolución Democrática* (the Party of the Democratic Revolution) or PRD, each with its own political platform. As a result, we cannot predict which party will prevail in the elections or whether changes in Mexican governmental policy will result from a change in administration. Such changes may adversely affect economic conditions or the industries in which we operate in Mexico and therefore our results of operations and financial position.

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

In addition to conducting operations in Mexico, our subsidiary Coca-Cola FEMSA conducts operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina and, beginning in 2006, our subsidiary FEMSA Cerveza also conducts operations in Brazil. These countries expose us to different or greater country risk than Mexico. For many of these countries, results of operations in recent years have been adversely affected by deteriorating macroeconomic and political conditions. Presidential elections in Brazil in 2006 may lead to changes in current policies. In Venezuela, significant economic, legal and political instability, including a currency devaluation, high unemployment, the introduction of exchange controls and social unrest have resulted in higher production costs and declining profitability for Coca-Cola FEMSA. In Colombia and Venezuela, Coca-Cola FEMSA has experienced limited disruptions in production and distribution, and in Argentina, it experienced limited disruptions in distribution in 2005.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate, by the devaluation of the local currency, inflation or interest rates or by political developments or changes in law. Total revenues increased in Coca-Cola FEMSA s non-Mexican territories, other than Central America, at a relatively higher rate than in its Mexican territories in 2005 as compared to prior periods, resulting in a greater contribution to its results of operations from these territories, which also have a lower operating margin. Devaluation of the local currencies against the U.S. dollar may increase our operating costs in these countries, and depreciation against the Mexican peso may negatively affect the results of operations for these countries as reported in our Mexican GAAP financial statements. In addition, some of these countries may impose exchange controls that could impact our ability to purchase raw materials in foreign currencies and the ability of the subsidiaries in these countries to remit dividends abroad or make payments other than in local currencies, as is currently the case in Venezuela under regulations imposed in January 2003 that continue to apply. As a result of these potential risks, we may experience lower demand, lower real pricing or increases in costs, which may negatively impact our results of operations.

ITEM 4. INFORMATION ON THE COMPANY

The Company

Overview

We are a Mexican company headquartered in Monterrey, Mexico, and our origin dates back to 1890. Our company was incorporated on May 30, 1936 and has a duration of 99 years. 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 *sociedad 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.

We conduct our operations through the following principal holding companies, each of which we refer to as a principal sub-holding company:

- Coca-Cola FEMSA, which engages in the production, distribution and marketing of soft drinks;
- FEMSA Cerveza, which engages in the production, distribution and marketing of beer; and
- FEMSA Comercio, which operates convenience stores.

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, that was founded in 1890 by four Monterrey businessmen: Francisco G. Sada, José A. Muguerza, Isaac Garza and José M. Schneider. Descendants of certain of the founders of Cuauhtémoc control our company.

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 33.7 million hectoliters in 2005.

The strategic integration of our company dates back to 1936 when our packaging operations were established to supply crown caps to the brewery. The packaging operations were expanded in 1957 when we began to produce labels and flexible packaging. 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 drinks and mineral water industries, the establishment of the first convenience stores under the trade name Oxxo and other investments in the hotel, construction, auto parts, food and fishing industries, which were considered non-core businesses and 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, FEMSA s 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 Brewing Company Limited, which we refer to as Labatt, in 1994. Labatt, which was later acquired by InBev S.A., or InBev (known at the time of the acquisition of Labatt as Interbrew), 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 its 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. 31,050 million and was financed with new debt, an equity contribution by FEMSA, an exchange of The 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%. As of May 31, 2006, 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 (46.4% 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 consummated a series of transactions with InBev, Labatt and certain of their affiliates to terminate the existing arrangements between FEMSA Cerveza and Labatt. As a result of these transactions, FEMSA acquired 100% ownership of FEMSA Cerveza and previously existing arrangements among affiliates of FEMSA and InBev relating to governance, transfer of ownership and other matters with respect to FEMSA Cerveza were terminated. We paid InBev a total of US$ 1,245 million for its affiliates 30% interest in FEMSA Cerveza. Pursuant to agreements entered into on June 21, 2004, Heineken USA replaced Labatt USA LLC and Latrobe Brewing Company LLC, which we refer to collectively as Labatt USA, as the exclusive importer, marketer and distributor of FEMSA Cerveza s beer brands in the United States starting on January 1, 2005. On June 1, 2005, we consummated an equity offering of 80.5 million BD Units (including BD Units in the form of ADSs) and 52.78 million B units that resulted in net proceeds to us of US$ 700 million after underwriting spreads and commissions. We used the proceeds of the equity offering to refinance indebtedness incurred in connection with the transactions with InBev, Labatt and certain of their affiliates.

On January 13, 2006, FEMSA Cerveza acquired 68% of the equity of the Brazilian brewer Kaiser from the Molson Coors Brewing Company, or Molson Coors. FEMSA Cerveza paid US$ 68 million to Molson Coors to acquire 68% of Kaiser at closing. Kaiser had existing financial debt of approximately US$ 60 million and certain contingent liabilities and claims. As part of the transaction to acquire Kaiser, FEMSA Cerveza has received certain indemnity provisions from Molson Coors. Molson Coors retained a 15% ownership stake in Kaiser, while Heineken s previous ownership of 17% remained unchanged.

Ownership Structure

We conduct our business through our principal sub-holding companies as shown in the following diagram and table:

Principal Sub-holding Companies Ownership Structure

As of May 31, 2006

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

The following tables present an overview of our operations by reportable segment and by geographic region under Mexican GAAP:

Operations by Segment Overview

Year Ended December 31, 2005[1][2]

	Coca-Cola FEMSA		FEMSA Cerveza		FEMSA Comercio	
	(in millions of constant Mexican pesos, except for employees and percentages)					
Total revenues	Ps.50,198	47.5%	Ps.27,573	26.1%	Ps. 28,734	27.2%
Income from operations	8,683	55.7	5,353	34.3	1,259	8.1
Total assets	67,148	53.3	44,810	35.6	9,690	7.7
Employees	55,635	61.3%	19,814	21.8%	9,234	10.2%

Total Revenues Summary by Segment[1]

	Year Ended December 31,		
	2005	2004	2003
	(in millions of constant Mexican pesos)		
Coca-Cola FEMSA	Ps. 50,198	Ps. 47,787	Ps. 39,062
FEMSA Cerveza	27,573	25,802	24,956
FEMSA Comercio	28,734	23,599	18,914
Other	6,168	5,322	4,933
Consolidated total revenues	Ps. 105,582	Ps. 96,833	Ps. 82,496

Total Revenues Summary by Geographic Region[3]

	Year Ended December 31,		
	2005	2004	2003
	(in millions of constant Mexican pesos)		
Mexico	Ps. 86,606	Ps. 77,431	Ps. 69,402
Central America	3,428	3,525	2,314
Colombia	4,698	4,376	2,930
Venezuela	4,946	4,683	2,827
Brazil	5,819	5,195	3,041
Argentina	2,798	2,615	2,242
Consolidated total revenues	Ps. 105,582	Ps. 96,833	Ps. 82,496

(1) 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.

(2) Excludes our other business segment, which had total revenues of Ps. 6,168 million and income from operations of Ps. 386 million in 2005.

(3) The sum of the financial data for each geographic region differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of May 31, 2006:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA	Mexico	100.0%
Coca-Cola FEMSA	Mexico	45.7(1)
Propimex, S.A. de C.V.	Mexico	45.7
Administración y Asesoría Integral, S.A. de C.V.	Mexico	45.7
Corporación Interamericana de Bebidas, S.A. de C.V. (Panamco)	Mexico	45.7
Panamco México, S.A. de C.V.	Mexico	45.4
Panamco Bajío, S.A. de C.V.	Mexico	43.6
Kristine Oversease, S.A. de C.V. (holding company of Brazilian operations)	Mexico	38.0
Emprex	Mexico	100.0
FEMSA Cerveza	Mexico	100.0
Cervecería Cuauhtémoc Moctezuma, S.A. de C.V.	Mexico	100.0
Cervezas Cuauhtémoc Moctezuma, S.A. de C.V.	Mexico	100.0
FEMSA Comercio	Mexico	100.0
Cadena Comercial Oxxo, S.A. de C.V.	Mexico	100.0
Oxxo Express, S.A. de C.V.	Mexico	100.0

(1) Percentage of capital stock. FEMSA owns 53.6% of the capital stock with full voting rights.

Business Strategy

We are a beverage company. Our soft drink operation, Coca-Cola FEMSA, is currently the second largest bottler of *Coca-Cola* products in the world, measured in terms of sales volumes in 2005, and our brewing operation, FEMSA Cerveza, is both a significant competitor in the Mexican beer market as well as an exporter in key international markets including the United States. Coca-Cola FEMSA and FEMSA Cerveza are our core businesses, which together define our identity and represent the avenues for our future growth. Our beverage

businesses are enhanced by Oxxo, the largest convenience store chain in Mexico measured in terms of number of stores at December 31, 2005 and a significant growth driver in its own right.

As a beverage company, we understand the importance of connecting with our end consumers by interpreting their needs, and ultimately delivering the right products to them for the right occasions. We strive to achieve this by developing the value of our brands, expanding our significant distribution capabilities, including aligning our interests with those at our third-party distribution partners in the beer market in Mexico, which in some instances involve us acquiring these third-party partners, and improving the efficiency of our operations. We continue to improve our information gathering and processing systems in order to better know and understand what our consumers want and need, and we are improving our production and distribution by more efficiently leveraging our asset base.

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guided our consolidation efforts, which culminated in Coca-Cola FEMSA s acquisition of Panamco on May 6, 2003. The continental platform that this new combination produces encompassing a significant territorial expanse in Mexico and Central America, including some of the most populous metropolitan areas in Latin America we believe may provide us with opportunities to create value through both an improved ability to execute our strategies and the use of superior marketing tools.

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.

Coca-Cola FEMSA

Overview and Background

Coca-Cola FEMSA is the largest bottler of Coca-Cola trademark beverages in Latin America, and the second largest in the world, calculated in each case by sales volume in 2005. It 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 (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).

Colombia most of the country.

Venezuela nationwide.

Argentina Buenos Aires and surrounding areas.

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

The following is an overview of Coca-Cola FEMSA s operations by geographical region in 2005:

Operations by Geographical Region Overview

Year Ended December 31, 2005[(1)]

	Total Revenues	Percentage of Total Revenues	Income from Operations	Percentage of Income from Operations
Mexico	Ps. 28,705	57.0%	Ps. 6,122	70.5%
Central America	3,428	6.8	468	5.4
Colombia	4,698	9.3	532	6.1
Venezuela	4,946	9.8	233	2.7
Argentina	2,798	5.6	422	4.9
Brazil	5,819	11.5	906	10.4

(1) Expressed in millions of constant Mexican pesos, except for percentage amounts. The sums of the financial data for each of its geographical regions and percentages with respect thereto differ from its consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain non-operating activities, including corporate services.

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

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, we 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.

In a series of transactions between 1994 and 1997, Coca-Cola FEMSA acquired the territory for Buenos Aires, Argentina from a subsidiary of The Coca-Cola Company. Coca-Cola FEMSA expanded its Argentine operations in February 1996 by acquiring territories for the contiguous San Isidro and Pilar areas.

Coca-Cola FEMSA expanded its Mexican operations in November 1997 by acquiring a territory in the state of Chiapas in southern Mexico, after which it covered the entire state of Chiapas.

In May 2003, Coca-Cola FEMSA acquired all of Panamco and began producing and distributing Coca-Cola trademark beverages in additional territories in the central and the gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. The total cost of the transaction was approximately Ps. 42,807 million, including transaction expenses in the amount of Ps. 424 million. Coca-Cola FEMSA financed the acquisition as follows: Ps. 18,768 million of new debt, Ps. 9,875 million of assumed net debt, a Ps. 3,020 million capital investment from us, the issuance of its Series D Shares to subsidiaries of The Coca-Cola Company in exchange for a capital contribution of Ps. 7,654 million in the form of equity interests in Panamco and Ps. 3,066 million in cash.

During August 2004, Coca-Cola FEMSA conducted a rights offering to allow existing holders of its Series L Shares and ADSs to acquire newly-issued Series L Shares in the form of Series L Shares and ADSs, respectively. The purpose of the rights offering was to permit holders of Series L Shares, including in the form of ADSs, to subscribe on a proportionate basis at the same price per share at which we and The Coca-Cola Company subscribed in connection with the Panamco acquisition. The rights offering expired on September 1, 2004. On March 8, 2006,

Coca-Cola FEMSA s shareholders approved the non-cancellation of the 98,684,857 Series L Shares (equivalent to approximately 9.87 million ADSs) that were not subscribed for in the rights offering. These shares are available for issuance in connection with future transactions and on terms and conditions determined by Coca-Cola FEMSA s Board of Directors at an issuance price of no less than US$ 2.216 per share or its equivalent in Mexican currency.

As of March 31, 2006, we indirectly owned Series A Shares equal to 45.7% of Coca-Cola FEMSA s capital stock (53.6% of its capital stock with full voting rights). The Coca-Cola Company indirectly owned Series D Shares equal to 39.6% of the capital stock of Coca-Cola FEMSA (46.4% of its capital stock with full voting rights). Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 14.7% of Coca-Cola FEMSA s capital stock.

Business Strategy

Coca-Cola FEMSA is the largest bottler of Coca-Cola trademark beverages in Latin America in terms of total sales volume in 2005, 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 Argentina and Brazil) 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 multi-segmentation strategies in its major markets to target distinct market clusters divided by competitive intensity and socioeconomic levels, by well-planned product, packaging and pricing strategies through channel distribution and by improving operational efficiencies throughout Coca-Cola FEMSA. To achieve these goals Coca-Cola FEMSA continues its efforts in:

- working with The Coca-Cola Company to develop a business model to continue exploring new lines of beverages, extend existing products and participate in new beverage segments, such as the non-carbonated beverage portfolio;
- implementing packaging strategies designed to increase consumer demand for its products and to build a strong returnable base for the *Coca-Cola* brand in its acquired territories;
- replicating its successful best practices throughout the whole value chain;
- rationalizing and adapting its organizational and asset structure in order to be in a better position to respond to a changing competitive environment;
- strengthening its selling capabilities and selectively implementing its pre-sale system, in order to get closer to its clients and help them satisfy the beverage needs of consumers;
- integrating its operations through advanced information technology systems;

evaluating its bottled water strategy, in conjunction with The Coca-Cola Company, to maximize its profitability across its market territories; and

committing to building a strong 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 its 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 its products. In addition, because it 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 manufacturing and distribution capacity to improve the efficiency of its operations. In 2003 and 2004, as part of the integration process from its acquisition of Panamco, Coca-Cola FEMSA closed several under-utilized manufacturing centers and shifted distribution activities to other existing facilities. Coca-Cola FEMSA closed additional distribution centers in 2005. See Production and Distribution Facilities. In each of its facilities, Coca-Cola FEMSA seeks to increase productivity through infrastructure and process reengineering for improved asset utilization. Its 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.

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 we 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 its executives abilities and exchange experiences, know-how and talent among an increasing number of multinational executives from its new and existing territories.

Markets

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

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

Products

Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages, proprietary brands and brands licensed from third parties. The *Coca-Cola* trademark beverages include colas, flavored soft drinks, water and beverages in other categories such as juice drinks and isotonics. The following table sets forth Coca-Cola FEMSA s main brands as of March 31, 2006:

	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

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

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Water:						
Ciel	ü					
Club K(2)			ü			
Crystal(2)					ü	
Dasani		ü	ü			ü
Manantial			ü			
Nevada				ü		
Santa Clara(2)			ü			

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Other Categories:						
Powerade(3)	ü	ü	ü	ü		
Sunfil(4)		ü		ü		

(1) Brand licensed from FEMSA.
(2) Proprietary brand.
(3) Isotonic.
(4) Juice drink.

Sales Overview

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

	Sales Volume		
	Year Ended December 31,		
	2005	2004	2003
	(millions of unit cases)		
Mexico	1,025.0	989.9	850.1
Central America	109.4	110.6	72.9
Colombia	179.7	167.1	114.1
Venezuela	172.5	172.7	110.1
Argentina	150.1	144.3	126.6
Brazil	252.5	227.5	142.5
Combined Volume	1,889.2	1,812.1	1,416.3

Product and Packaging Mix

Coca-Cola FEMSA s most important brand is *Coca-Cola* and its line extensions, *Coca-Cola light*, *Coca-Cola with lime* and *Coca-Cola light with lime*, which together accounted for 62.1% of total sales volume in 2005. *Ciel*, *Fanta*, *Sprite*, *Lift* and *Fresca*, Coca-Cola FEMSA s next largest brands in consecutive order, accounted for 10.8%, 5.7%, 3.1%, 2.5% and 1.8%, respectively, of total sales volume in 2005. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors in which it offers its brands. 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 polyethylene terephtalate, which Coca-Cola FEMSA refers to as PET.

Coca-Cola FEMSA uses the term presentation to refer to the packaging unit in which it sells its products. Presentation sizes for Coca-Cola FEMSA s Coca-Cola trademark beverages range from a 4-ounce personal size to a 20-liter multiple serving size. Coca-Cola FEMSA considers multiple serving size as equal to or larger than 1.0 liter. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. Coca-Cola FEMSA offers both returnable and non-returnable presentations, which allow 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 it refers to as fountain. Coca-Cola FEMSA also sells bottled water products in jug sizes, which refers to sizes 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.

Coca-Cola FEMSA s core brands are principally the *Coca-Cola* trademark beverages. It sells certain of these brands or their line extensions at a premium in some of its territories, in which it refers to them as premium brands. Coca-Cola FEMSA also sells certain other brands at a lower price per ounce, which it refers to as value protection brands.

The characteristics of Coca-Cola FEMSA s territories are very diverse. Central Mexico is densely populated and has a large number of competing carbonated soft drink brands and higher per capita income as compared to the rest of its territories. Brazil and Argentina are densely populated but have lower per capita consumption of

carbonated soft drink products as compared to Mexico, particularly in Brazil. Portions of Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita consumption of soft drink products. In Venezuela, per capita consumption of Coca-Cola FEMSA s products has been affected by periodic operating disruptions. 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 segment. The volume data presented is for the years 2005, 2004 and 2003, which includes the acquired territories for the first four months of 2003 prior to the acquisition of Panamco. Coca-Cola FEMSA acquired these territories on May 6, 2003. Coca-Cola FEMSA has presented above under Sales Overview its actual sales volumes by territory for the three years ended December 31, 2005, 2004 and 2003, which include the 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 the Mundet trademark beverages. In 2005, as part of its efforts to revitalize the *Coca-Cola* brand, Coca-Cola FEMSA launched *Coca-Cola with lime* (*Citra*) and *Coca-Cola light with lime* (*Citra light*), both line extensions of the *Coca-Cola* brand. Coca-Cola FEMSA also introduced a portfolio of no calorie versions of the majority of its core flavor brands under the Spacio Leve commercial strategy. It also launched the non-carbonated beverages *Ciel Aquarius*, a flavored no calorie water, and juice-based products under the *Minute Maid* brand. Carbonated soft drink per capita consumption of its products in its Mexican territories in 2005 was 389 eight-ounce servings.

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

	Year Ended December 31,		
	2005	**2004**	**2003**
	(millions of unit cases)		
Product Sales Volume			
Coca-Cola Trademark Beverages	991.7	969.2	985.4
Other Beverages	33.3	20.7	16.2
Total	1,025.0	989.9	1,001.6
% Growth	3.5%	(1.2)%	2.2%
	(in percentages)		
Unit Case Volume Mix by Category			
Total Carbonated Soft Drinks	79.3%	80.4%	78.5%
Water[1]	19.7	19.1	20.9
Other Categories	1.0	0.5	0.6
Total	100.0%	100.0%	100.0%
	(in percentages)		
Product Mix by Presentation			
Returnable	26.6%	28.4%	27.9%
Non-returnable	57.2	55.9	54.9
Fountain	1.2	1.3	1.3
Jug	15.0	14.4	15.9
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

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Coca-Cola FEMSA s most popular soft drink presentations were the 2.5-liter returnable plastic bottle, the 0.6-liter non-returnable plastic bottle and the 2.5-liter non-returnable plastic bottle, which together accounted for almost 70% of total carbonated soft drink sales volume in Mexico in 2005. Since 2003, Coca-Cola FEMSA has introduced a number of new presentations in Mexico. These include 2.5-liter returnable plastic bottles, 1.25-liter returnable glass bottles, 1.5-liter non-returnable plastic bottles, 8 and 10.5-ounce cans, 0.45-liter non-returnable plastic bottles, 0.71-liter non-returnable plastic bottles and 4-ounce non-returnable glass bottles. Coca-Cola FEMSA relaunched its 2.0-liter non-returnable plastic bottle to fill competitive and consumer needs.

Multiple serving presentations are an important component of Coca-Cola FEMSA s product mix. In 2005, multiple serving presentations represented 61.1% of total carbonated soft drink sales volume in Mexico, remaining almost flat as compared to 2004. Coca-Cola FEMSA s commercial strategies seek to maintain the packaging mix between single and multiple serving presentations.

In the past, the packaging trend in the soft drink industry in Mexico had moved toward non-returnable presentations. However, in 2004, due to the entrance of low price brands in multiple serving size presentations, Coca-Cola FEMSA refocused its packaging mix strategy to reinforce its sales of multiple serving size returnable packages. As a result, carbonated soft drink non-returnable presentations remained almost flat as a percentage of total sales volume in Mexico in 2004. In 2005, Coca-Cola FEMSA s carbonated soft drink non-returnable presentations increased as a percentage of its total sales volume from 66.8% in 2004 to 68.7% in 2005, due to a more favorable economic environment in the country and a wider offering of non-returnable presentations. Returnable plastic and glass presentations offer consumers a more affordable, although less convenient, product. Coca-Cola FEMSA believes returnable packages present an opportunity for it 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 more than 20% lower than a non-returnable package of the same size. These returnable products are mainly sold to small store retailers, which represent the largest distribution channel in the Mexican market, and benefit from returnable bottles lower price per ounce, which allows them to compete with larger supermarkets. 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 volume reached 1,025.0 million unit cases in 2005, an increase of 3.5% compared to 989.9 million unit cases in 2004. Carbonated soft drink sales volume grew 2.5%, which together with the 31.6% increase in jug water sales volume, accounted for over 80% of the incremental volumes during the year. Carbonated soft drink volume growth was mainly driven by strong growth from the *Coca-Cola* brand.

Central America

Coca-Cola FEMSA s product sales in Central America consist predominantly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption in Central America of Coca-Cola FEMSA s products was 131 eight-ounce servings in 2005.

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

	Year Ended December 31,		
	2005	2004	2003
	(millions of unit cases)		
Product Sales Volume			
Coca-Cola Trademark Beverages	101.7	102.9	99.6
Other Beverages	7.7	7.7	7.7
Total	109.4	110.6	107.3
% Growth	(1.1)%	3.1%	7.2%

	(in percentages)		
Unit Case Volume Mix by Category			
Total Carbonated Soft Drinks	93.6%	94.3%	94.1%
Water	4.3	4.1	4.2
Other Categories	2.1	1.6	1.7
Total	100.0%	100.0%	100.0%

	(in percentages)		
Product Mix by Presentation			
Returnable bottles	41.9%	48.3%	51.8%
Non-returnable bottles	54.4	47.2	42.9
Fountain	3.7	4.5	5.3
Jug			
Total	100.0%	100.0%	100.0%

In Central America, Coca-Cola FEMSA sells the majority of its sales volume through small retailers. In 2005, multiple serving presentations represented 48.8% of total carbonated soft drink sales volume in Central America compared with 50.1% in 2004. Beginning in 2004, Coca-Cola FEMSA faced greater competition as a result of the entrance of low price brands in the Central American region. Coca-Cola FEMSA also reinforced its packaging portfolio offering for the *Coca-Cola* brand with the introduction of 1.5-liter and 2.5-liter non-returnable plastic bottles and a more affordable 2.5-liter returnable plastic bottle. Coca-Cola FEMSA also complemented its product portfolio with the introduction of *Frescolita*, a value protection brand in 2.5-liter, 1.5-liter and 0.6 liter non-returnable plastic bottles.

Total sales volume was 109.4 million unit cases in 2005, declining 1.1% compared to 110.6 million in 2004. The volume decline was driven by lower carbonated soft drink volumes as a result of a tougher competitive environment in the region.

Colombia

Coca-Cola FEMSA s product portfolio in Colombia consists of *Coca-Cola* trademark beverages and certain products sold under proprietary trademarks and the *Kola Román* brand, which it licenses from a third party. Carbonated soft drink per capita consumption of its products in Colombia during 2005 was 85 eight-ounce servings.

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

	Year Ended December 31,		
	2005	2004	2003
	(millions of unit cases)		
Product Sales Volume			
Coca-Cola Trademark Beverages	168.0	152.7	133.5
Other Beverages	11.7	14.4	38.3
Total	179.7	167.1	171.8
% Growth	7.5%	(2.7)%	(7.1)%
	(in percentages)		
Unit Case Volume Mix by Category			
Total Carbonated Soft Drinks	87.9%	86.4%	84.7%
Water[(1)]	12.0	13.2	15.1
Other Categories	0.1	0.4	0.2
Total	100.0%	100.0%	100.0%
	(in percentages)		
Product Mix by Presentation			
Returnable	46.2%	50.7%	53.4%
Non-returnable	44.5	39.6	36.8
Fountain	3.3	3.3	3.0
Jug	6.0	6.4	6.8
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

The Colombian market is characterized by lower per capita consumption and relatively lower levels of non-returnable presentations compared with the rest of Coca-Cola FEMSA s territories. In 2005, multiple serving presentations represented 47.2% of total carbonated soft drink sales volume in Colombia. At the beginning of 2005, Coca-Cola FEMSA launched *Crush Multiflavors* to enhance its competitive position, foster demand for flavored carbonated soft drink brands and leverage its extended distribution and improved execution capabilities countrywide.

Total sales volume was 179.7 million unit cases in 2005, an increase of 7.5% compared to 167.1 million in 2004, driven by an increase in carbonated soft drink volumes. The volume increase was mainly a result of incremental volumes in the *Crush* brand and volume increases in the *Coca-Cola* brand.

Venezuela

Coca-Cola FEMSA s product portfolio in Venezuela consists predominantly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of its products in Venezuela during 2005 was 135 eight-ounce servings.

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

	Year Ended December 31,		
	2005	2004	2003
	(millions of unit cases)		
Product Sales Volume			
Coca-Cola Trademark Beverages	169.4	169.5	148.6
Other Beverages	3.1	3.2	3.0
Total	172.5	172.7	151.6
% Growth	(0.1)%	13.9%	(6.9)%
	(in percentages)		
Unit Case Volume Mix by Category			
Total Carbonated Soft Drinks	86.6%	86.3%	86.2%
Water[(1)]	8.7	8.2	8.2
Other Categories	4.7	5.5	5.6
Total	100.0%	100.0%	100.0%
	(in percentages)		
Product Mix by Presentation			
Returnable	24.7%	30.1%	36.4%
Non-returnable	69.0	63.4	57.6
Fountain	3.2	3.0	2.7
Jug	3.1	3.5	3.3
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

During 2005, despite increasing demand for carbonated soft drinks in the marketplace, Coca-Cola FEMSA s sales volume remained almost flat due to periodic operating difficulties that prevented it from producing and distributing enough supply.

Total sales volume totaled 172.5 million unit cases in 2005, remaining almost flat compared to 172.7 million in 2004. The slight volume increase in carbonated soft drink and water sales volume was completely offset by a decline in its non-carbonated beverage segment.

Argentina

Coca-Cola FEMSA s product portfolio in Argentina consists exclusively of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of its products in Argentina during 2005 was 316 eight-ounce servings.

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

	Year Ended December 31,		
	2005	2004	2003
	(millions of unit cases)		
Product Sales Volume			
Coca-Cola Trademark Beverages	150.1	144.3	126.6
Other Beverages			
Total	150.1	144.3	126.6
% Growth	4.0%	14.0%	9.5%
	(in percentages)		
Unit Case Volume Mix by Category			
Total Carbonated Soft Drinks	97.3%	98.6%	98.8%
Water	1.7	0.8	0.9
Other Categories	1.0	0.6	0.3
Total	100.0%	100.0%	100.0%
	(in percentages)		
Product Mix by Presentation			
Returnable	25.9%	26.9%	24.5%
Non-returnable	70.7	69.6	71.8
Fountain	3.4	3.5	3.7
Jug			
Total	100.0%	100.0%	100.0%

During 2005, Coca-Cola FEMSA experienced a packaging shift mix towards non-returnable presentations. Returnable packaging accounted for 25.9% of total sales volume in Argentina in 2005 as compared to 26.9% in 2004. Coca-Cola FEMSA continues to be focused on bolstering its non-carbonated categories through its juice drinks *Cepita*, *Carioca* and *Montefiore*.

Total sales volume reached 150.1 million unit cases in 2005, an increase of 4.0% compared with 144.3 million in 2004. In 2005, core brands generated approximately 73% of Coca-Cola FEMSA s incremental volume growth and premium brands accounted for most of the balance, which more than offset volume decline in its value protection brands. In Argentina, premium brands consist of diet carbonated soft drinks and *Schweppes*. The majority of the volume growth came from Coca-Cola FEMSA s non-returnable presentations, including the 1.5 and 2.25-liter non-returnable plastic bottles for its core brands, representing almost 68% of the sales volume increase. In 2005, multiple serving presentations represented 82.6% of carbonated soft drinks total sales volume as compared to 83.1% in 2004.

Brazil

Coca-Cola FEMSA s product portfolio in Brazil consists mainly of *Coca-Cola* trademark beverages. Carbonated soft drink per capita consumption of its products in Brazil during 2005 was 187 eight-ounce servings.

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

	Year Ended December 31,		
	2005	2004	2003
	(millions of unit cases)		
Product Sales Volume			
Coca-Cola Trademark Beverages	235.1	214.6	206.1
Other Beverages	17.4	12.9	10.9
Total	252.5	227.5	217.0
% Growth	11.0%	4.8%	(15.7)%
	(in percentages)		
Unit Case Volume Mix by Category			
Total Carbonated Soft Drinks	92.1%	93.4%	94.2%
Water	7.0	5.8	5.1
Other Categories	0.9	0.8	0.7
Total	100.0%	100.0%	100.0%
	(in percentages)		
Product Mix by Presentation			
Returnable	8.0%	5.3%	4.9%
Non-returnable	88.5	90.9	90.5
Fountain	3.5	3.8	4.6
Jug			
Total	100.0%	100.0%	100.0%

During 2005, Coca-Cola FEMSA continued to diversify its packaging mix from 2.0-liter non-returnable packages and cans, which together accounted for over 60% of carbonated soft drink sales volume in 2005, a decrease from 69% in 2004, to a wider array of returnable and non-returnable presentations, including 3.0-liter, 2.5-liter, 2.25-liter and 1.5-liter non-returnable plastic bottles and 1.0-liter returnable glass bottles.

Total sales volume was 252.5 million unit cases in 2005, an increase of 11.0% compared to 227.5 million in 2004. This increase included 9.5% carbonated soft drink volume growth during the year. The majority of the volume growth came from multiple serving presentations, including the 1.5-liter, 2.0-liter and 2.25-liter non-returnable plastic bottles and the 1.0-liter returnable glass bottle, which together represented 60.5% of Coca-Cola FEMSA s carbonated soft drinks total sales volume. The volume increase was a result of volume growth across all Coca-Cola FEMSA s beverage categories, including strong volume growth from the *Coca-Cola* brand in both returnable and non-returnable presentations and its water brand *Crystal* as a result of increased focus on both brands.

Coca-Cola FEMSA distributes the *Kaiser* brands of beer in its territories in Brazil. In January 2006, FEMSA Cerveza acquired an indirect controlling stake in Kaiser. Coca-Cola FEMSA has subsequently agreed to continue to distribute the Kaiser beer portfolio and to assume the sales function in São Paulo, Brazil, consistent with the arrangements in place prior to 2004. Beginning with the second quarter of 2005, Coca-Cola FEMSA ceased including beer that it distributes in Brazil in its sales volumes. Coca-Cola FEMSA has reclassified prior periods presented in this report for comparability purposes.

Seasonality

Sales of Coca-Cola FEMSA s products are seasonal, as its sales levels generally increase during the summer months of each country and during the Christmas holiday season. In Mexico, Central America, Colombia and

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Venezuela, Coca-Cola FEMSA typically achieves its highest sales during the summer months of April through September as well as during the Christmas holidays in December. In Argentina and Brazil, its highest sales levels occur during the summer months of October through March and the Christmas holidays in December.

Marketing

Coca-Cola FEMSA, in conjunction with The Coca-Cola Company, has developed a sophisticated marketing strategy to promote the sale and consumption of its products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and non-price related retailer incentive programs designed by local affiliates of The Coca-Cola Company to target the particular preferences of its soft drink consumers. Coca-Cola FEMSA s marketing expenses in 2005, net of contributions by The Coca-Cola Company, were Ps. 1,484 million. The Coca-Cola Company contributed Ps. 952 million in 2005. Through the use of advanced information technology, Coca-Cola FEMSA has collected customer and consumer information that allows it to tailor its marketing strategies to the types of customers located in each of its territories and to meet the specific needs of the various market segments it serves. Coca-Cola FEMSA continues to roll out its information technology system in its acquired territories.

Retailer Incentive Programs

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

Advertising

Coca-Cola FEMSA advertises in all major communications media. Coca-Cola FEMSA focuses its advertising efforts on increasing brand recognition by consumers and improving its customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company s local affiliates, with Coca-Cola FEMSA s input at the local or regional level.

Channel Marketing

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

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

Multi-segmentation

Coca-Cola FEMSA has been implementing a multi-segmentation strategy in its major markets, including Mexico, Brazil and Argentina. This strategy consists of the implementation of different product/price/package

portfolios by market cluster or group. These clusters are defined based on competitive intensity and socio-economic levels, rather than solely the types of distribution channels. Coca-Cola FEMSA has developed a market intelligence system that it refers to as the right-execution-daily system (RED), which has allowed it to implement this strategy. This system provides the data required to target specific consumer segments and channels and allows Coca-Cola FEMSA to collect and analyze the data required to tailor its product, package, price and distribution strategies to fit different consumer needs.

Product Distribution

The following table provides an overview of Coca-Cola FEMSA s product distribution centers and the retailers to which it sells its products:

Product Distribution Summary

As of December 31, 2005

	Mexico	Central America	Colombia	Venezuela	Brazil	Argentina
Distribution Centers	106	35	37	33	12	5
Retailers (in thousands)[1]	585.2	134.3	368.7	228.9	115.6	79.6

(1) Estimated.

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

Coca-Cola FEMSA believes that service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system for its products. Accordingly, Coca-Cola FEMSA has continued to expand its pre-sale system throughout its operations, except in areas where it believes consumption patterns do not warrant pre-sale.

Coca-Cola FEMSA s distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to its fleet of trucks, Coca-Cola FEMSA distributes its products in certain locations through a fleet of electric carts and hand-trucks in order to comply with local environmental and traffic regulations. Coca-Cola FEMSA generally retains third parties to transport its finished products from the bottler plants to the distribution centers.

Mexico

Coca-Cola FEMSA contracts with one of our subsidiaries for the transportation of finished products to its distribution centers from its Mexican production facilities. From the distribution centers, Coca-Cola FEMSA then distributes its finished products to retailers through its own fleet of trucks.

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

Central America

In Central America, Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors. At the end of 2005, it operated 35 distribution centers in its Central American territories. In its Central American operations, as in most of its territories, an important part of its total sales volume is through small retailers, and Coca-Cola FEMSA has low supermarket penetration.

Colombia

More than 56% of total sales volume in Colombia in 2005 was sold through the pre-sale system. The balance is sold through the traditional system. Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors. During 2005, Coca-Cola FEMSA closed four distribution facilities in Colombia.

Venezuela

In Venezuela, close to 72% of total sales volume in 2005 was through the pre-sale system. Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors. During 2005, Coca-Cola FEMSA closed one distribution facility in Venezuela. Coca-Cola FEMSA s Venezuelan operations distribute a significant part of their total sales through small retailers and supermarkets, which in most of their operations have a less significant presence.

Argentina

As of December 31, 2005, Coca-Cola FEMSA operated five distribution centers in Argentina. Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third party distributors.

In 2005, Coca-Cola FEMSA sold the majority of its products in the take-home segment, which consists of sales to consumers who take the beverages home or elsewhere for consumption. The percentage of total sales volume through supermarkets decreased from 15.4% in 2004 to 14.3% in 2005.

Brazil

In Brazil, almost 100% of Coca-Cola FEMSA s direct sales volume was through the pre-sale system, although the delivery of its finished products to customers is by a third party. At the end of 2005, Coca-Cola FEMSA operated 12 distribution facilities in its Brazilian territories. In contrast with the rest of its territories, which have low supermarket penetration, in Brazil Coca-Cola FEMSA sold more than 20% of its total sales volume through supermarkets in 2005. In addition, in designated zones, third-party distributors purchase Coca-Cola FEMSA s products at a discount from the wholesale price and resell the products to retailers.

Competition

Although Coca-Cola FEMSA believes that its products enjoy wider recognition and greater consumer loyalty than those of its principal competitors, the soft drink segments in the territories in which Coca-Cola FEMSA operates are highly competitive. Coca-Cola FEMSA s principal competitors are local bottlers of Pepsi and other bottlers and distributors of national and regional soft drink brands. Coca-Cola FEMSA faces increased competition in many of its territories from producers of low price beverages, commonly referred to as B brands. Competitive pressures in the territories acquired in the Panamco acquisition are different than those Coca-Cola FEMSA has historically faced. For example, a number of its competitors in Central America and Brazil offer both soft drinks and beer, which may enable them to achieve distribution efficiencies.

Recently, price discounting and packaging have joined consumer sales promotions, customer service and non-price retailer incentives as the primary means of competition among soft drink bottlers. Coca-Cola FEMSA

competes by seeking to offer products at an attractive price in the different segments in its markets and by building on the value of its brands. Coca-Cola FEMSA believes that the introduction of new products and new presentations has been a significant competitive technique that allows it to increase demand for its products, provide different options to consumers and increase new consumption opportunities. See Sales Overview.

Mexico

Coca-Cola FEMSA s principal competitors in Mexico are bottlers of Pepsi products, whose territories overlap but are not co-extensive with its own. These competitors include Pepsi Gemex, S.A. de C.V. in central Mexico, a subsidiary of PBG, the largest bottler of Pepsi products globally, and several other Pepsi bottlers in central and southeast Mexico. In addition, Coca-Cola FEMSA competes with *Cadbury Schweppes* and with other national and regional brands in its Mexican segment. Coca-Cola FEMSA continues to face competition from low price producers offering multiple serving size presentations in the soft drink industry.

Central America

In the countries that comprise its Central America segment, Coca-Cola FEMSA s main competitors are Pepsi bottlers. In Guatemala and Nicaragua, Coca-Cola FEMSA competes against a joint venture between AmBev and The Central American Bottler Corporation; in Costa Rica, its principal competitor is Embotelladora Centroamericana, S.A.; and in Panama, its main competitor is Refrescos Nacionales, S.A. During 2005, Coca-Cola FEMSA continued to face an increase in competition from low price producers offering multiple serving size presentations in some Central American countries.

Colombia

Coca-Cola FEMSA s principal competitor in Colombia is Postobón S.A., which we refer to as Postobón, a well-established local bottler that sells flavored soft drinks, some of which have a wide consumption preference, such as cream soda, which is the second most popular category in the Colombian soft drink industry in terms of total sales volume, and that also sells Pepsi products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia.

Venezuela

In Venezuela, Coca-Cola FEMSA s main competitor is Pepsi-Cola Venezuela, C.A., a joint venture formed between Pepsico and Empresas Polar, S.A., the leading beer distributor in the country. Coca-Cola FEMSA also competes with the producers of *Kola Real* in part of the country.

Argentina

In Argentina, Coca-Cola FEMSA s main competitor is BAESA, a Pepsi bottler, which is owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In addition to BAESA, competition has intensified over the last several years with the entrance of a number of competitors offering generic, low priced soft drinks as well as many other generic products and private label proprietary supermarket brands.

Brazil

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

Taxation of Soft Drinks

All of the countries in which Coca-Cola FEMSA operates impose a value-added tax on the sale of soft drinks, with a rate of 15% in Mexico, 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 5% in Panama, 16% in Colombia, 14% in Venezuela, 18% (São Paulo) and 17% (Mato Grosso do Sul) in Brazil and 21% in Argentina. In addition, several of the countries in which Coca-Cola FEMSA operates impose the following excise or other taxes:

Mexico imposes a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners. See Item 8 Financial Information Legal Proceedings Coca-Cola FEMSA.

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.25 as of December 31, 2005) per liter of soft drink.

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

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

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

Brazil imposes an average production tax of 16.5% and an average sales tax of 4.6% in the territories where Coca-Cola FEMSA operates.

Price Controls

At present, there are no price controls on Coca-Cola FEMSA s products in any of its segments. In Mexico, prior to 1992, prices of carbonated soft drinks were regulated by the Mexican government. From 1992 to 1995, the industry was subject to voluntary price restraints. In response to the devaluation of the Mexican peso relative to the U.S. dollar in 1994 and 1995, however, the Mexican government adopted an economic recovery plan to control inflationary pressures in 1995. As part of this plan, the Mexican government encouraged the *Asociación Nacional de Productores de Refrescos y Aguas Carbonatadas, A.C.* (the National Association of Bottlers) to engage in voluntary consultations with the Mexican government with respect to price increases for returnable presentations. These voluntary consultations were terminated in 1996. In the last 10 years, the governments in Colombia, Brazil and Venezuela have also imposed formal price controls on soft drinks. The imposition of price controls in the future may limit Coca-Cola FEMSA s ability to set prices and adversely affect its results of operations.

Raw Materials

Pursuant to the bottler agreements with The Coca-Cola Company, Coca-Cola FEMSA is required to purchase concentrate, including aspartame, an artificial sweetener used in diet sodas, for all Coca-Cola trademark beverages from companies designated by The Coca-Cola Company. The price of concentrate for all Coca-Cola trademark beverages is a percentage of the average price Coca-Cola FEMSA charges to its retailers net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company. In most cases, concentrate is purchased in the local currency of the territory.

In 2005, The Coca-Cola Company informed Coca-Cola FEMSA that it will gradually increase concentrate prices for carbonated soft drinks over a three year period in Mexico beginning in 2007 and in Brazil beginning in 2006. Based on its internal estimates for revenues and sales volume mix, Coca-Cola FEMSA currently expects the incremental annual cost in Mexico to be approximately US$ 20 million in 2007, increasing gradually by a

similar amount during the following two years, and to reach approximately US$ 60 million by the end of 2009. In Brazil, the increase will affect all carbonated soft-drink presentations. Based on its estimates, it currently expects its annual costs in Brazil to rise by approximately US$ 1.0 million in 2006, increasing gradually by a similar amount the following two years, and to reach approximately US$ 3.8 million by the end of 2008. Coca-Cola FEMSA has informed The Coca-Cola Company that in order to offset the impact on its profitability that such concentrate prices represent, it intends to reduce its contribution to marketing expenditures of its soft drink brands in Mexico and Brazil, effective the same dates as the cost increases.

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide, resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, closures and fountain containers, as well as other packaging materials. Coca-Cola FEMSA s bottler agreements provide that, with respect to Coca-Cola trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company. Prices for packaging materials historically are determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Coca-Cola FEMSA s most significant packaging raw material costs arise from the purchase of resin, plastic ingots to make plastic bottles and finished plastic bottles, which it obtains from international and local producers. The prices of these materials are tied to crude oil prices, and Coca-Cola FEMSA has recently experienced volatility in the prices it pays for these materials. In Mexico, Coca-Cola FEMSA s average price for resin increased by more than 25% in U.S. dollars in 2005. Resin prices may continue to increase in the future.

Under its agreements with The Coca-Cola Company, Coca-Cola FEMSA may use raw or refined sugar or high fructose corn syrup as sweeteners in its products. 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 it to pay in excess of international market prices for sugar. Coca-Cola FEMSA has experienced sugar price volatility in these territories as a result of changes in local conditions and regulations.

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

Mexico

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

Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for the soft drink. Coca-Cola FEMSA purchases sugar from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of Coca-Cola bottlers. These purchases are regularly made under one-year agreements between PROMESA and each bottler subsidiary for the sale of sugar at a price that is determined monthly based on the cost of sugar to PROMESA. Coca-Cola FEMSA also purchases sugar from Beta San Miguel, S.A. de C.V., a sugar cane producer in which it holds a 2.54% equity interest.

In December 2001, the Mexican government expropriated the majority of the sugar mills in Mexico. To manage this industry, the Mexican government entered into a trust agreement with Nacional Financiera, S.N.C., which we refer to as Nafin, a Mexican government-owned development bank, pursuant to which Nafin acts as trustee. In addition, the Mexican government imposed a 20% excise tax, effective January 1, 2002, on carbonated soft drinks sweetened with high fructose corn syrup. As a result, Coca-Cola FEMSA converted its Mexican bottler facilities to sugar cane-based production in early 2002. On January 1, 2003, the Mexican government broadened the reach of this tax by imposing a 20% excise tax on carbonated soft drinks produced with non-sugar

sweetener. The effect of these excise taxes was to limit Coca-Cola FEMSA s ability to substitute other sweeteners for sugar. Coca-Cola FEMSA has initiated proceedings in Mexican federal court against this excise tax that have allowed it to cease paying the tax in 2005 and as of March 31, 2006. Coca-Cola FEMSA is also resuming the use of high fructose corn syrup as a sweetener. See Item 8 Financial Information Legal Proceedings Coca-Cola FEMSA Mexico.

Imported sugar is also presently subject to import duties, the amount of which is set by the Mexican government. As a result, sugar prices in Mexico are in excess of international market prices for sugar. Sugar prices stabilized in 2005 after significant increases in 2004.

Central America

The majority of Coca-Cola FEMSA s raw materials such as glass and plastic bottles and cans are purchased from several local suppliers. Sugar is available from one supplier in each country. Local sugar prices are significantly higher than international market prices, and Coca-Cola FEMSA s ability to import sugar or high fructose corn syrup is limited.

Colombia

Coca-Cola FEMSA uses sugar as a sweetener in its products, which it buys from several domestic sources. Coca-Cola FEMSA purchases pre-formed ingots from Amcor and Tapón Corona de Colombia S.A., in which Coca-Cola FEMSA had a 40% equity interest until June 2005. Coca-Cola FEMSA purchases all its glass bottles and cans from suppliers, in which its competitor Postobón owns a 40% equity interest. Other suppliers exist for glass bottles, however, cans are available only from this one source.

Venezuela

Coca-Cola FEMSA uses sugar as a sweetener in its products, of which it purchases the majority from the local market. Since 2003, Coca-Cola FEMSA has experienced a sugar shortage due to lower domestic production and the inability of the main sugar importers to obtain permissions to import. However, Coca-Cola FEMSA was able to meet its sugar requirements through one-time imports. Coca-Cola FEMSA only buys glass bottles from one supplier, Productos de Vidrio, S.A., a local supplier, but there are other alternative suppliers authorized by The Coca-Cola Company. Coca-Cola FEMSA has several supplier options for plastic non-returnable bottles but it acquires most of its requirements from ALPLA de Venezuela, S.A. One exclusive supplier handles all of Coca-Cola FEMSA s can requirements.

Argentina

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

Brazil

Sugar is widely available in Brazil at internal market prices, which historically have been lower than international prices. Coca-Cola FEMSA expects sugar prices to increase in 2006. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

FEMSA Cerveza

Overview and Background

FEMSA Cerveza is one of the two leading beer producers in Mexico measured in terms of sales volume. In 2005, FEMSA Cerveza sold 27.018 million hectoliters of beer. In 2005, FEMSA Cerveza was ranked the fifteenth-largest brewer in the world in terms of sales volume based on third party estimates. FEMSA Cerveza exports its products to more than 70 countries worldwide, with North America being its most important export market, followed by certain markets in Europe, Latin America and Asia. FEMSA Cerveza s principal operating subsidiaries are Cervecería Cuauhtémoc Moctezuma, S.A. de C.V., which operates six breweries, and Cervezas Cuauhtémoc Moctezuma, S.A. de C.V., which operates our company-owned distribution centers.

On August 31, 2004, we consummated a series of transactions with InBev, Labatt and certain of their affiliates to terminate the joint venture arrangements between FEMSA Cerveza and Labatt that we originally entered into in 1994. In connection with these transactions, we paid InBev a total of US$ 1,245 million, acquired the 30% of FEMSA Cerveza not previously owned by us and unwound the Labatt USA joint venture as well as the related U.S. distribution agreement, which was terminated effective December 31, 2004. As of January 1, 2005, our beers are distributed in the U.S. exclusively by Heineken USA.

Recent Development Kaiser Acquisition

On January 13, 2006, FEMSA Cerveza acquired 68% of the equity of the Brazilian brewer Kaiser from Molson Coors. FEMSA Cerveza paid US$68 million to Molson Coors to acquire 68% of Kaiser. At closing, Kaiser had financial debt of approximately US$60 million and certain contingent liabilities and claims. As part of the transaction to acquire Kaiser, FEMSA Cerveza has received certain indemnity provisions from Molson Coors. Molson Coors retained a 15% ownership stake in Kaiser, while Heineken s previous ownership of 17% remained unchanged.

Following the acquisition, FEMSA is entitled to elect five of the seven members of Kaiser s Board of Directors and to exercise full management control over Kaiser. Molson Coors and Heineken are each entitled to elect one director. In addition, Molson Coors is entitled to require FEMSA Cerveza to acquire its stake in Kaiser at a price based on the greater of FEMSA Cerveza s acquisition value plus a carrying cost or fair market value until January 2009 and at fair market value thereafter. Subject to certain conditions, FEMSA Cerveza has a call right over Molson Coors shares at fair market value at any time beginning January 2013. In addition, the shareholders agree to engage in the Brazilian beer business exclusively through Kaiser so long as they continue to be shareholders, except as otherwise agreed.

As of December 31, 2005, Kaiser operated 8 breweries in Brazil with an aggregate installed capacity of 20 million hectoliters. Kaiser produces 15 brands of beer in as many as 55 different presentations. The most important brands in Kaiser s portfolio include *Kaiser Pilsen* and *Bavaria*. Kaiser reported sales volumes of 8.6 million hectoliters for the year ended December 31, 2005.

The information contained in this annual report with respect to FEMSA Cerveza does not include Kaiser.

Business Strategy

FEMSA Cerveza s objective is to produce, market, distribute and sell quality beer products, expanding its penetration in the Mexican market as well as in other markets particularly the United States and Brazil. FEMSA Cerveza seeks to achieve profitable volume growth, thereby generating economic value for its shareholders.

In order to achieve its objectives in the Mexican market, FEMSA Cerveza seeks to:

- ***implement advanced brand, packaging and price information gathering techniques*** at the point-of-sale to allow FEMSA Cerveza to fine tune its portfolio of brands and pricing at the level of individual retailers;

innovate through a differentiated brand portfolio and increase the value of its brands by tailoring its portfolio of brands based on the attributes of each brand to specific markets using marketing techniques such as market segmentation, brand positioning and distinctive advertising campaigns;

establish profitable, long-term relationships with retailers by implementing client-specific strategies to help increase their sales and profitability, such as modifying commercial terms with retailers, promotions and types of refrigeration equipment and point-of-sale marketing materials;

achieve balanced and profitable retail distribution levels by selecting the appropriate mix of on- and off-premise accounts, and a balance of image-focused accounts (like upscale restaurants) and volume-driven accounts (like beer depots); and

pursue additional efficiencies and cost reductions on a continuing basis from production to final distribution, by pursuing specific cost reduction efforts, using information technology and improving business processes.

Product Overview

As of December 31, 2005, FEMSA Cerveza produced and/or distributed 15 brands of beer in 11 different presentations resulting in a portfolio of 70 different product offerings. The most important brands in FEMSA Cerveza s domestic portfolio include: *Tecate*, *Sol*, *Carta Blanca*, *Superior* and *Indio*. These five brands, all of which are distributed nationwide in Mexico, accounted for approximately 94% of FEMSA Cerveza s domestic beer sales volume in 2005.

Per capita information, product segments, relative prices and packaging information with respect to FEMSA Cerveza have been computed and are based upon our statistics and assumptions.

The Mexican Beer Market

The Mexican beer market was the eighth largest beer market in the world in terms of industry sales volume in 2005 and was characterized by (1) concentrated domestic beer production, (2) regional market share differences, (3) the prevalence of government licensing regulations and (4) favorable demographics in the beer drinking population.

Concentrated domestic beer production

Since 1985, Mexico has effectively had only two independent domestic beer producers, FEMSA Cerveza and Grupo Modelo. Grupo Modelo, a publicly traded company based in Mexico City, is the holding company of 76.8% of Diblo, S.A. de C.V., which operates the brewing and packaging subsidiaries of Grupo Modelo. Grupo Modelo s principal beer brands are *Corona, Modelo, Victoria* and *Pacífico*. Grupo Modelo s *Corona, Modelo* and *Victoria* brands are distributed nationwide in Mexico, while *Pacífico* is sold principally along the pacific coastal regions. *Modelo Especial*, *Modelo Light* and *Pacífico* are Grupo Modelo s domestic can presentations.

Historically, beer imports have not been a significant factor in the Mexican beer market, because they were subject to tariffs of up to 20%. Under NAFTA, the tariff on imported beer from the United States and Canada was gradually reduced and eventually eliminated in January 2001. Notwithstanding the reduction in tariff levels, imported beers accounted for approximately 2.0% of the total Mexican beer market in terms of sales volume during 2005. FEMSA Cerveza believes that tariff elimination has had a limited effect on the Mexican beer market because imported beers are largely premium and super-premium products sold in aluminum cans, which are a more expensive means of packaging in Mexico than beer sold in returnable bottles. However, periods of relative strength of the Mexican peso with respect to the U.S. dollar may lower the price of imported beer to consumers and may result in increased demand for imported beer in the Mexican market.

Regional market share differences

FEMSA Cerveza and Grupo Modelo are both strongest in beer markets in separate regions of Mexico. FEMSA Cerveza has a stronger market position in the northern and southern areas of Mexico while Grupo Modelo has a stronger market position in central Mexico. We believe that these regional market positions can be traced in part to consumer loyalty to the brand of beer that has historically been associated with a particular region. For example, FEMSA Cerveza s *Carta Blanca* brand was first produced in Monterrey, Nuevo León in 1891. The strong regional identity in Monterrey and surrounding northeastern areas is reflected in the region s preference for *Carta Blanca* and other FEMSA Cerveza brands.

We also believe that regional market strength is a function of the proximity of the breweries to the markets they serve. Transportation costs restrict the most efficient distribution of beer to a geographic area of approximately 300 to 500 kilometers surrounding a brewery. Generally, FEMSA Cerveza commands a majority of the beer sales in regions that are nearest to its largest breweries. FEMSA Cerveza s largest breweries are in Orizaba, Veracruz and in Monterrey, Nuevo León. Grupo Modelo s largest breweries are located in Mexico City, Oaxaca and Zacatecas.

The northern region of Mexico has traditionally enjoyed a higher per capita income level, attributable in part to its rapid industrialization within the last 50 years and to its commercial proximity to the United States. In addition, FEMSA Cerveza believes that per capita beer consumption is also greater in this region due to its warmer climate and a more ingrained beer culture.

Mexican Regional Demographic Statistics

Region	Percent of 2005 Total Population	Percent of Total 2005 Gross Domestic Product	Per Capita 2005 Gross Domestic Product (in thousands of Mexican pesos)
Northern	26.4%	33.1%	Ps. 93.2
Southern	22.7	14.9	48.8
Central	50.9	52.0	76.0
Total	100.0%	100.0%	Ps. 74.4

Source: FEMSA Cerveza estimates based on figures published by the Mexican Institute of Statistics (INEGI) and CAPEM Oxford Economics Forecasting.

Government regulation

The Mexican federal government regulates beer consumption in Mexico primarily through taxation while local governments in Mexico regulate primarily through the issuance of licenses that authorize retailers to sell alcoholic beverages.

Federal taxes on beer consisted of a 25% excise tax and a 15% value-added tax, which together represented 43.75% of the total pre-tax price of beer to retailers. In 2005, the excise tax was amended for the first time since January 1998. Effective January 1, 2006, the excise tax will be the higher of (1) 25% and (2) Ps. 3 per liter for non-returnable presentation or Ps. 1.74 for returnable presentations, as part of an environmental initiative by the Mexican governmental to encourage returnable presentations. The tax component of retail beer prices is significantly higher in Mexico than in the United States.

The number of retail outlets authorized to sell beer is controlled by local jurisdictions, which issue licenses authorizing the sale of alcoholic beverages. Other regulations regarding beer consumption in Mexico vary

according to local jurisdiction and include limitations on the hours during which restaurants, bars and other retail outlets are allowed to sell beer and other alcoholic beverages. FEMSA Cerveza has been engaged in addressing these limitations at various levels, including efforts with governmental and civil authorities to promote better education for the responsible consumption of beer. For instance, as part of its ongoing community activities, FEMSA Cerveza has been an active sponsor of a nationwide designated driver program in Mexico.

Since July 1984, Mexican federal regulation has required that all forms of beer packaging carry a warning advising that excessive consumption of beer is hazardous to one s health. In addition, the *Ley General de Salud* (the General Health Law), requires that all beers sold in Mexico maintain a sanitation registration with the *Secretaría de Salud* (the Ministry of Health).

Demographics of beer drinking population

We estimate that annual per capita beer consumption for the total Mexican population reached approximately 55 liters in 2005. The legal drinking age is 18 in Mexico. We consider the population segment of men between the ages of 18 and 45 to be FEMSA Cerveza s primary market. At least 39% of the Mexican population is under the age of 18 and, therefore, is not considered to be part of the beer drinking population.

Based on historical trends and what management perceives as the continued social acceptance of beer consumption, FEMSA Cerveza believes that general population growth will result in an increase in the number of beer consumers in Mexico. Based on historical trends as measured by the Mexican Institute of Statistics, we expect the Mexican population to grow at an average annual rate of approximately 1.2% per year over the period from 2006 to 2010. We estimate that over the next 10 years approximately in excess of 1.6 million additional people per year will become potential beer consumers due to the natural aging of the Mexican population.

In 2005, estimated annual per capita beer consumption was approximately 55 liters in Mexico, as compared to approximately 80 liters in the United States. Generally speaking, countries with higher per capita beer consumption have relatively higher per capita income. In 2005, per capita income in Mexico was equivalent to approximately US$ 6,828, compared to a per capita income of approximately US$ 41,856 in the United States. FEMSA Cerveza identifies approximately 66% of its consumers as blue collar, 24% as white collar and the remaining 10% as students, unemployed, retirees or other.

Macroeconomic influences affecting beer consumption

We believe that consumption activity in the Mexican beer market is heavily influenced by the general level of economic activity in Mexico, the country s gross wage base, changes in real disposable income and employment levels. As a result, the beer industry reacts sharply to economic change. The industry generally experiences high volume growth in periods of economic strength and slower volume growth or volume contraction in periods of economic weakness. Domestic beer sales declined in 1982, 1983 and 1995. These sales decreases correspond to periods in which the Mexican economy experienced severe disruptions. Similarly, the economic slowdown observed in 2001 and 2002 corresponded to a reduction in domestic beer sales in 2002. In 2003, given the effect of a continued economic slowdown on consumers, FEMSA Cerveza decided not to increase prices. The reduction in prices in real terms (after giving effect to inflation) was the main driver for increasing sales volumes during 2003. In 2004, growth in Mexico s gross domestic product was the main driver for increasing beer sales volume, despite price increases in nominal terms in the Mexican beer industry. In 2005, beer sales volume growth outpaced growth in Mexico s gross domestic product.

Mexican Beer Prices

After more than 18 months without a price increase, FEMSA Cerveza increased prices in Mexico during the first quarter of 2004. The effect of these price increases was partially offset by promotional activity that reduced the price of beer, due to a strong competitive environment. During 2005, FEMSA Cerveza increased prices in

Mexico in line with inflation. In the first quarter of 2006, FEMSA Cerveza increased prices in Mexico by brand, presentation and point of sale, resulting in an average price increase of 3.5% in nominal Mexican peso terms.

According to the Bank of Mexico s consumer beer price index, for the Mexican beer industry as a whole, average consumer beer prices increased 1.0% in nominal terms, which amounted to a 3.0% decrease in real terms after considering Mexican inflation for the year. The following table shows relative real average retail prices since 2001 for the Mexican beer industry:

Mexican Beer Industry

Cumulative Real Consumer Beer Price Index: 2001-2005

(2001 = 100%)

Year Ended December 31,				
2005	**2004**	**2003**	**2002**	**2001**
91.8	94.7	96.7	100.4	100.0

Source: Bank of México

FEMSA Cerveza s Beer Sales Volume

FEMSA Cerveza volume figures contained in this annual report refer to invoiced sales volume of beer. Invoiced sales volume represents the quantity of hectoliters of beer sold by FEMSA Cerveza s breweries to unaffiliated distributors and by affiliated distributors to retailers. The term hectoliter means 100 liters or approximately 26.4 U.S. gallons.

FEMSA Cerveza s total beer sales volume totaled 27.018 million hectoliters in 2005, an increase of 5.2% from total sales volume of 25.682 million hectoliters in 2004. In 2005, FEMSA Cerveza s domestic beer sales volume increased by 4.9% to 24.580 million hectoliters and export beer sales volume increased by 8.8% to 2.438 million hectoliters.

FEMSA Cerveza Total Beer Sales Volumes

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(in thousands of hectoliters)				
Domestic beer sales volume	24,580	23,442	22,582	21,856	22,018
Export beer sales volume	2,438	2,240	1,982	1,955	1,843
Total beer sales volume	27,018	25,682	24,564	23,811	23,861

FEMSA Cerveza s domestic beer sales volume recorded a compounded average growth rate of 2.8% for the period 2001 through 2005. This compares with the 2.3% compounded average growth rate of the Mexican gross domestic product for the same period. Domestic beer sales for the same period recorded a 2.4% compounded average growth rate. FEMSA Cerveza s export sales volume recorded a compound average growth rate of 7.2% for the same period, while the compound average growth rate for export sales was 16.8%.

FEMSA Cerveza s Beer Presentations

FEMSA Cerveza produces and distributes beer in returnable glass bottles and kegs and in non-returnable aluminum cans and glass bottles. FEMSA Cerveza uses the term presentation to reflect these packaging options. The following table shows the percent of total beer sales volume by presentation for the year ended December 31, 2005:

FEMSA Cerveza s Total Beer Volume by Presentation

Year Ended December 31, 2005

Presentation	Percentage
Returnable bottles	60.4%
Non-returnable bottles	10.0
Cans	27.9
Kegs	1.7
Total	100.0%

Returnable presentations

The most popular form of packaging in the Mexican beer market is the returnable bottle. FEMSA Cerveza believes that the popularity of the returnable bottle is attributable to its lower price to the consumer. While returnable bottles generally cost approximately twice as much to produce as non-returnable bottles, returnable bottles may be reused an average of 30 times before being recycled. As a result, beer producers are able to charge lower prices for beer in returnable bottles. Because non-returnable presentations are the most expensive, we believe that demand for these presentations is highly sensitive to economic factors. During periods when the Mexican economy is weak, returnable sales volume generally increase at a faster rate relative to non-returnable sales volume.

Non-returnable presentations

FEMSA Cerveza s presentation mix in Mexico has been growing in non-returnable presentations in the last few years, as we tailor our offering to consumer preferences and provide different convenient alternatives. The vast majority of export sales are in non-returnable presentations.

Relative Pricing in the Mexican Market

Returnable bottles and kegs are the least expensive beer presentation on a per-milliliter basis. Cans and non-returnable bottles have historically been priced higher than returnable bottles. In 2005, the weighted average of this difference was between 25% and 30% higher price per-milliliter for non-returnable presentations. The consumer preference for presentations in cans has varied considerably over the past 20 years, rising in periods of economic prosperity and declining in periods of economic austerity, reflecting the price differential between these forms of packaging.

Exports

FEMSA Cerveza s principal export market is the United States and its export strategy focuses on that country. In particular, FEMSA Cerveza concentrates efforts on its core markets located in the sun-belt states bordering Mexico, while seeking to develop its brands in key imported beer markets located in the eastern United States. FEMSA Cerveza believes that these two regions of the United States represent its greatest potential market outside of Mexico.

Prior to January 1, 2005, Labatt USA was the importer of FEMSA Cerveza s brands in the United States. 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, on January 1, 2005, Heineken USA became the exclusive importer, marketer and seller of FEMSA Cerveza s brands in the United States. These agreements will expire on December 31, 2007.

Export beer sales volume of 2.438 million hectoliters in 2005 represented 9.0% of FEMSA Cerveza s total beer sales volume and accounted for 10.2% of FEMSA Cerveza s total beer sales. The following table highlights FEMSA Cerveza s export beer sales volumes and export beer sales:

FEMSA Cerveza Export Summary

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Export beer sales volume[1]	2,438	2,240	1,982	1,955	1,843
Volume growth[2]	8.8%	13.0%	1.4%	6.1%	6.6%
Percent of total beer sales volumes	9.0%	8.7%	8.1%	8.2%	7.7%
Export beer sales:					
Mexican pesos[3] (millions)	2,515	1,860	1,609	1,441	1,352
U.S. dollars[4] (millions)	227	156	133	127	123
Revenue growth (US$)[2]	45.8%	16.7%	4.6%	3.7%	7.3%
Percent of total beer sales	10.2%	8.1%	7.2%	6.5%	6.3%

Source: FEMSA Cerveza.

(1) Thousands of hectoliters.
(2) Percentage change over prior year.
(3) Constant Mexican pesos at December 31, 2005.
(4) Export beer sales are invoiced and collected in U.S. dollars.

FEMSA Cerveza currently exports its products to more than 70 countries. The principal export markets for FEMSA Cerveza are North America, Europe, Latin America and Asia. In 2005, export beer sales volume to these regions accounted for 91.4%, 3.7%, 3.3% and 1.6%, respectively, of FEMSA Cerveza s export beer sales volume.

FEMSA Cerveza s principal export brands are *Tecate*, *XX Lager*, *Dos Equis (Amber)* and *Sol*. These brands collectively accounted for 93% of FEMSA Cerveza s export sales volume for the year ended December 31, 2005.

FEMSA Cerveza s Principal Export Brands

Year Ended December 31, 2005

Brand	**Percent of Export Volume**
Tecate	58.3%
XX Lager and Dos Equis	23.5
Sol	11.6
Carta Blanca	4.8
Bohemia	1.8
Total	100.0%

Seasonality

Demand for FEMSA Cerveza s beer is highest in the Mexican summer season, and consequently, brewery utilization rates are at their highest during this period. Demand for FEMSA Cerveza s products also tends to increase in the month of December, reflecting consumption during the holiday season. Demand for FEMSA Cerveza s products decreases during the months of November, January and February primarily as a result of colder weather in the northern regions of Mexico.

Primary Distribution

FEMSA Cerveza s primary distribution in Mexico is from its production facilities to its distribution centers warehouses. FEMSA Cerveza delivers to a combination of company-owned and third party distributors. In an effort to improve the efficiency and alignment of the distribution network, FEMSA Cerveza has adjusted its relationship with independent distributors by implementing franchise agreements and as a result, has achieved economies of scale through integration with FEMSA Cerveza s operating systems. FEMSA Cerveza has also increased the number of company-owned distributors by acquiring third party distributors in recent years. In 2005, approximately 77% of FEMSA Cerveza s domestic beer sales volume passed through 232 company-owned distribution centers. The remaining 23% was sold through 75 independent distributors, most of them operating under franchise agreements with FEMSA Cerveza. A franchise agreement is offered only to those distributors that meet certain standards of operating capabilities, performance and alignment. FEMSA Cerveza has historically and intends to continue in the future to acquire those distributors that do not meet these standards. Through this initiative FEMSA Cerveza will continue to seek to increase its domestic beer sales volume through company-owned distribution centers.

In addition to distributing its own brands, 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.

Retail Distribution

The main sales outlets for beer in Mexico are small, independently-owned mom and pop grocery stores, dedicated beer stores or *depósitos*, liquor stores and bars. Supermarkets account for only a small percentage of beer sales in Mexico. In addition, FEMSA Comercio operates a chain of more than 4,141 convenience stores under the trade name Oxxo that exclusively sell FEMSA Cerveza s brands.

Distribution of FEMSA Cerveza Domestic Beer Sales Volume by Outlet

Year Ended December 31, 2005

Points of Sale	**Percentage**
Small grocery stores	21.8%
Beer and liquor stores	28.8
Mini-markets and convenience stores	19.0
Other points of sale	7.0
Subtotal	76.6
Consumption Centers	**Percentage**
Bars	10.2%
Restaurants	3.9
Nightclubs	2.4
Other consumption centers	6.9
Subtotal	23.4
Total	100.0%

The Mexican retail market is fragmented and characterized by a preponderance of small outlets that are unable and unwilling to maintain meaningful inventory levels. Consequently, FEMSA Cerveza must make frequent product deliveries to its retailers. In recent years, FEMSA Cerveza has implemented the pre-sale process of distribution in its markets to improve its distribution practices. The pre-sale process is 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. One of the primary objectives of pre-sale is to separate sales from distribution to ensure more reliable market access and to enhance efficiency by reducing the number of secondary distribution routes in otherwise highly fragmented markets. Where pre-sale has been implemented, we have experienced a significant reduction in unsold product and a net reduction in distribution personnel. The existence of the pre-sale process facilitates systematic product delivery and helps discipline product inventory at the point-of-sale. Furthermore, pre-sale has enabled FEMSA Cerveza to collect customer and consumer information directly from the marketplace, which then becomes valuable in defining brand portfolios by channel. See Marketing Strategy.

During 2004, FEMSA Cerveza completed the implementation of the pre-sale process in its company-owned distribution centers, which as of December 31, 2005 represented 86% of the beer sales volume of FEMSA Cerveza s company-owned distribution centers. As of December 31, 2005, FEMSA Cerveza serves more than 310,000 retailers and its distribution network operates approximately 2,044 retail distribution routes. This is slightly lower than the number of routes in operation in 2004 (without considering 87 routes acquired from third party distributors during 2005), and reflects the reconfiguration in distribution logistics as a result of the implementation of pre-sale in many key markets.

Enterprise Resource Planning

FEMSA Cerveza operates an Enterprise Resource Planning system, or ERP, that provides an information and control platform to support commercial activities nationwide and correlate them with the administrative and business development decision-making process occurring in FEMSA Cerveza s central office. By June of 2006, the domestic beer sales volume of all of FEMSA Cerveza s company-owned distribution centers is expected to be operating through ERP as well as some of its most important third party distributors.

Marketing Strategy

FEMSA Cerveza focuses on the consumer by segmenting its markets and positioning its brands accordingly, striving to develop brand and presentation portfolios that provide the best alternatives for every consumption occasion, within every market segment and at the appropriate price points. By segmenting its markets, we refer to the technique whereby we target a particular group of consumers with specific characteristics, such as a geographic region or age group. Continuous market research provides feedback that is used to evolve and adapt our product offerings to best satisfy our consumers needs. We are increasingly focused on micro-segmentation, where we use our market research and our information technology systems to target smaller market segments, including in some cases the individual point-of-sale.

FEMSA Cerveza also focuses on the retailer by designing and implementing channel marketing at the point-of-sale such as promotional programs, providing merchandising materials and, where appropriate, refrigeration equipment. A channel refers to a point-of-sale category, or sub-category, such as supermarkets, beer depots, restaurants, etc. Furthermore, we are always attempting to develop new channels in order to capture incremental consumption opportunities for our brands.

In order to coordinate the brand and channel strategies, we are developing and implementing integrated marketing programs, which aim to improve brand value through the simultaneous use of mass media advertising and targeted marketing efforts at the point-of-sale as well as event sponsorships. Our marketing program for a particular brand seeks to emphasize in a consistent manner the distinctive attributes of that brand.

Plants and Facilities

FEMSA Cerveza currently operates six breweries in Mexico with an aggregate monthly production capacity of 2,808 thousand hectoliters, equivalent to approximately 33.7 million hectoliters of annual capacity. Each of FEMSA Cerveza s Mexican breweries has received ISO 9002 certification and a Clean Industry Certification (*Industria Limpia*) given by Mexican environmental authorities. A key consideration in the selection of a site for a brewery is its proximity to potential markets, as the cost of transportation is a critical component of the overall cost of beer to the consumer. FEMSA Cerveza s Mexican breweries are strategically located across the country, as shown in the table below, to better serve FEMSA Cerveza s distribution system.

FEMSA Cerveza Facility Capacity Summary

Year Ended December 31, 2005

Brewery	**Average Annualized Capacity (in thousands of hectoliters)**
Orizaba	7,200
Monterrey	7,800
Toluca	5,400
Navojoa	5,400
Tecate	4,680
Guadalajara	3,216
Total	33,696
Average capacity utilization	78.0%

Between 2001 and 2005, FEMSA Cerveza increased its average monthly production capacity by approximately 190,000 hectoliters through additional investments in existing facilities. During 2004, FEMSA Cerveza expanded average monthly capacity in the Navojoa brewery to achieve a production capacity of 450,000 hectoliters. FEMSA Cerveza s management believes that it will be able to continue to adequately expand its production capacity by investing in existing facilities.

During 2005, FEMSA Cerveza increased its malting capacity by 16% to 154,000 tons per year with the opening of its new malt-production facility in Puebla, Mexico. Covering an area of 18,000 square meters, this facility is one of the largest and most technologically advanced in the world.

FEMSA Cerveza operates seven effluent water treatment systems in Mexico to treat the water used by the breweries, all of which are wholly owned by FEMSA Cerveza except for the effluent treatment system at the Orizaba brewery, which is a joint venture among FEMSA Cerveza, several other local companies and the government of the state of Veracruz.

Glass Bottles and Cans

On December 20, 2004, the glass bottle and can operations that were formerly part of FEMSA Empaques, S.A. de C.V., which we refer to as FEMSA Empaques, became part of FEMSA Cerveza. These operations produce (1) beverage cans and can ends, (2) glass bottles and (3) crown caps for glass bottle presentations. The operations include a silica sand mine, which provides materials necessary for the production of glass bottles. The following table provides a summary of the facilities for these operations:

FEMSA Cerveza Glass Bottle and Beverage Can Operations Product Summary

Year Ended December 31, 2005

Product	Location	Annual Production Capacity[1]	% Average Capacity Utilization
Beverage cans	Ensenada	1,600	100.0
	Toluca	1,800	100.0
		3,400	100.0
Can ends	Monterrey	4,300	96.4
Crown cap	Monterrey	18,000	94.8
Glass bottles	Orizaba	1,300	86.7
Bottle decoration	Nogales	330	46.2
Silica sand	Acayucan	360,000	100.0

(1) Amounts are expressed in millions of units of each product, except for silica sand which is expressed in thousands of tons.

Two plants produce aluminum beverage can bodies at production facilities in Ensenada and Toluca, and another plant produces can ends at a production facility in Monterrey. During 2005, 53% of the beverage can volume produced by these plants was used by FEMSA Cerveza and the remaining amount was sold to third parties.

Glass bottles are produced at a glass production facility in Orizaba, Veracruz and bottles are decorated at a plant in Nogales, Veracruz. During 2005, 77% of the glass bottle volume produced by these plants was used by FEMSA Cerveza, 17% was sold to Coca-Cola FEMSA and the remaining 6% was sold to third parties.

Raw Materials

Malted barley, hops, certain grains, yeast and water are the principal ingredients used in manufacturing FEMSA Cerveza s beer products. The principal raw materials used by FEMSA Cerveza s packaging operations

include aluminum, steel and silica sand. All of these raw materials are generally available in the open market. FEMSA Cerveza satisfies its commodity requirements through purchases from various sources, including purchases pursuant to contractual arrangements and purchases in the open market.

Aluminum and steel are two of the most significant raw materials used in FEMSA Cerveza s packaging operations to make aluminum cans, can ends and bottle caps. FEMSA Cerveza purchases aluminum and steel directly from international and local suppliers on a contractual basis. These contracts generally have terms of six months or one year and specify prices free-on-board at FEMSA Cerveza s facilities. Companies such as Alcoa, Nittetsu-Shoji, Noreli, CSN, Rasselstein and AHMSA have been selected as suppliers. Prices for aluminum have been volatile in recent periods, and market prices increased approximately by 9% in 2005. Prices of aluminum and steel are generally quoted in U.S. dollars, and FEMSA Cerveza s cost is therefore affected by changes in exchange rates. For example, a depreciation of the Mexican peso against the U.S. dollar will increase the cost to FEMSA Cerveza of aluminum and steel, as its sales are generally denominated in Mexican pesos. To date, FEMSA Cerveza s silica sand mine has been able to satisfy all of the silica sand requirements of its glass bottle operations.

Barley is FEMSA Cerveza s most significant raw material for the production of its beer products. International markets determine the prices and supply sources of agricultural raw materials, which are affected by the level of crop production, inventories, weather conditions, domestic and export demand, as well as government regulations affecting agriculture. The principal source of barley for the Mexican beer industry is the domestic harvest. If domestic production is insufficient to meet the industry s requirements, barley (or its equivalent in malt) can be obtained from international markets. Before 2003, pursuant to NAFTA, an annual duty-free import quota for barley (or its equivalent in malt) was set. In 2003, under NAFTA, barley imports from the U.S. and Canada are tax-free and there are no import quota restrictions. Prior to NAFTA, domestic barley prices were significantly higher than international barley prices. Since the implementation of NAFTA, domestic barley prices have been stabilizing considering international references, freights and import expenses. We have generally been able to obtain our barley requirements in the domestic market. Hops is the only ingredient that is not available domestically. FEMSA Cerveza imports hops primarily from the United States and Europe.

FEMSA Comercio

Overview and Background

FEMSA Comercio operates the largest chain of convenience stores in Mexico, measured in terms of number of stores as of December 31, 2005, under the trade name Oxxo. As of December 31, 2005, FEMSA Comercio operated 4,141 Oxxo stores located in 28 states of the country, with a particularly strong presence in the northern part of Mexico.

FEMSA Comercio, the largest single customer of FEMSA Cerveza and of the Coca-Cola system in Mexico, was established by FEMSA in 1978 when two Oxxo stores were opened in Monterrey, one store in Mexico City and another store in Guadalajara. The motivating factor behind FEMSA s entrance into the retail industry was to enhance beer sales through company-owned retail outlets as well as to gather information on customer preferences. In 2005, sales of beer through Oxxo represented 8.6% of FEMSA Cerveza s domestic beer sales volume as well as approximately 13% of FEMSA Comercio s revenues. In 2005, a typical Oxxo store carried 2,103 different store keeping units (SKUs) in 35 main product categories, representing a significant increase in the product offering historically carried by Oxxo stores.

In recent years, FEMSA Comercio has gained importance as an effective distribution channel for our beverage products, as well as a rapidly growing point of contact with our consumers. Based on the belief that location plays a major role in the long-term success of a retail operation such as a convenience store, as well as a role in our continually improving ability to accelerate and streamline the new-store development process, FEMSA Comercio has focused on a strategy of rapid, profitable growth. FEMSA Comercio opened 437, 582, 668 and 675 net new Oxxo stores in 2002, 2003, 2004 and 2005, respectively. The accelerated expansion yielded

total revenue growth of 21.8% to reach Ps. 28,734 million in 2005, while same store sales increased 8.7%, which was considerably higher than the retail industry average. FEMSA Comercio served approximately 978 million customers in 2005 compared to 846 million in 2004.

Business Strategy

A fundamental element of FEMSA Comercio s business strategy is to utilize its position in the convenience store market to grow in a cost-effective and profitable manner. As a market leader in convenience store retailing, based on internal company surveys, management believes that FEMSA Comercio has an in-depth understanding of its markets and significant expertise in operating a national store chain. FEMSA Comercio intends to continue increasing its store base while capitalizing on the market knowledge gained at existing stores.

FEMSA Comercio has developed proprietary models to assist in identifying appropriate store locations, store formats and product categories. Its model utilizes location-specific demographic data and FEMSA Comercio s experience in similar locations to fine tune the store format and product offerings to the target market. Market segmentation is becoming an important strategic tool, and it should increasingly allow FEMSA Comercio to improve the operating efficiency of each location and the overall profitability of the chain.

FEMSA Comercio has made and will continue to make significant investments in information technology to improve its ability to capture customer information from its existing stores and to improve its overall operating performance. Approximately 99.3% of the products carried through Oxxo stores are bar-coded, and 100% of the Oxxo stores are equipped with point-of-sale systems that are integrated into a company-wide computer network. To implement revenue management strategies, FEMSA Comercio created a division in charge of product category management for products, such as beverages, fast food and perishables, to enhance and better utilize its consumer information base and market intelligence capabilities. FEMSA Comercio is implementing an ERP system, which will allow FEMSA Comercio to redesign its key operating processes and enhance the usefulness of its market information going forward.

FEMSA Comercio has adopted innovative promotional strategies in order to increase store traffic and sales. In particular, FEMSA Comercio sells high-frequency items such as beverages, snacks and cigarettes at competitive prices. FEMSA Comercio s ability to implement this strategy profitably is partly attributable to the size of the Oxxo chain, as FEMSA Comercio is able to work together with its suppliers to implement their revenue-management strategies through differentiated promotions. Oxxo s national and local marketing and promotional strategies are an effective revenue driver and a means of reaching new segments of the population while strengthening the Oxxo brand. For example, the organization has refined its expertise in executing cross promotions (discounts on multi-packs or sales of complementary products at a special price) and targeted promotions to attract new customer segments, such as housewives, by expanding the offerings in the grocery product category in certain stores.

Store Locations

With 4,141 Oxxo stores in Mexico as of December 31, 2005, FEMSA Comercio operates the largest convenience store chain in Latin America measured by number of stores. Oxxo stores are concentrated in the northern part of Mexico, but also have a growing presence in central Mexico and the Gulf coast.

FEMSA Comercio has aggressively expanded its number of stores over the past several years. The average investment required to open a new store varies, depending on location and format and whether the store is opened in an existing retail location or requires construction of a new store. FEMSA Comercio is generally able to use supplier credit to fund the initial inventory of new stores.

Growth in Total Oxxo Stores

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
Total Oxxo stores	4,141	3,466	2,798	2,216	1,779
Store growth (% change over previous year)	19.5%	23.9%	26.3%	24.6%	20.0%

FEMSA Comercio currently expects to continue the growth trend established over the past several years by emphasizing growth in areas of high economic potential in existing markets and by expanding in underserved and unexploited markets. Management believes that the southeast part of Mexico is particularly underserved by the convenience store industry.

The identification of locations and pre-opening planning in order to optimize the results of new stores are important elements in FEMSA Comercio s growth plan. FEMSA Comercio continuously reviews store

performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores unable to maintain benchmark standards are generally closed. Between December 31, 2001 and 2005, the total number of Oxxo stores increased by 2,362, which resulted from the opening of 2,441 new stores and the closing of 79 existing stores.

Competition

Oxxo competes in the convenience store segment of the retail market with 7-Eleven, Super Extra, Circle-K and AM/PM, as well as other local convenience stores. The format of these stores is similar to the format of the Oxxo stores. Oxxo competes both for consumers and for new locations for stores and the managers to operate those stores. Based on an internal market survey conducted by FEMSA Comercio, management believes that, as of December 31, 2005, there were approximately 6,787 stores in Mexico that could be considered part of the convenience store segment of the retail market. Oxxo is the largest chain in Mexico, operating more than half of these stores. Furthermore, FEMSA Comercio operates in 28 states and has much broader geographical coverage than any of its competitors in Mexico.

Market and Store Characteristics

Market Characteristics

FEMSA Comercio is placing increased emphasis on market segmentation and differentiation of store formats to more appropriately serve the needs of customers on a location-by-location basis. The principal segments include residential neighborhoods, commercial and office locations and stores near schools and universities, along with other types of specialized locations.

Approximately 68% of Oxxo s customers are between the ages of 15 and 35. FEMSA Comercio also segments the market according to demographic criteria, including income level.

Store Characteristics

The average size of an Oxxo store is approximately 111 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 185 square meters and, when parking areas are included, the average store size increases to approximately 432 square meters.

FEMSA Comercio Operating Indicators

	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
	(percentage increase compared to previous year)				
Total FEMSA Comercio revenues	21.8%	24.8%	24.5%	18.2%	19.1%
Oxxo same-store sales[(1)]	8.7%	8.9%	8.2%	6.0%	6.4%
	(percentage of total)				
Beer-related data:					
Beer sales as % of total store sales	13.0%	13.4%	12.8%	13.3%	13.6%
Oxxo store sales as a % of FEMSA Cerveza s volume	8.6%	7.3%	5.4%	4.5%	3.9%

(1) 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 same stores during the previous year.

Beer, telephone cards, soft drinks and cigarettes represent the main product categories for Oxxo stores. FEMSA Comercio has a distribution agreement with FEMSA Cerveza. As a result of this agreement, Oxxo stores only carry beer brands produced and distributed by FEMSA Cerveza. Prior to 2001, Oxxo stores had informal agreements with Coca-Cola bottlers, including Coca-Cola FEMSA s territories in central Mexico, to sell only their products. Since 2001, a limited number of Oxxo stores began selling *Pepsi* products in certain cities in northern Mexico, as part of a defensive competitive strategy.

Approximately 88% of Oxxo stores are operated by independent managers responsible for all aspects of store operations. The managers are commission agents and are not employees of FEMSA Comercio. Each store manager is the legal employer of the store s staff, which typically numbers six people per store. FEMSA Comercio continually invests in on-site operating personnel, with the objective of promoting loyalty, customer-service and low personnel turnover in the stores.

Advertising and Promotion

FEMSA Comercio s marketing efforts include both specific product promotions and image advertising campaigns. These strategies seek to increase store traffic and sales, and to reinforce the Oxxo name and market position.

FEMSA Comercio manages its advertising on three levels depending on the nature and scope of the specific campaign: local or store-specific, regional and national. Store-specific and regional campaigns are closely monitored to ensure consistency with the overall corporate image of Oxxo stores and to avoid conflicts with national campaigns. FEMSA Comercio primarily uses point of purchase materials, flyers, handbills and print and radio media for promotional campaigns, although television is used occasionally for the introduction of new products and services. The Oxxo chain s image and brand name are presented consistently across all stores, irrespective of location.

Inventory and Purchasing

FEMSA Comercio has placed considerable emphasis on improving operating performance. As part of these efforts, FEMSA Comercio continues to invest in extensive information management systems to improve inventory management. Electronic data collection has enabled FEMSA Comercio to reduce average inventory levels. Inventory replenishment decisions are carried out on a store-by-store basis.

Management believes that the Oxxo chain s scale of operations provides FEMSA Comercio with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks, cigarettes and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 58% of the products carried by the Oxxo chain are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by FEMSA Comercio s distribution system, which includes seven regional warehouses located in Monterrey, Mexico City, Guadalajara, Mexicali, Mérida, León and Chihuahua. The distribution centers operate a fleet of approximately 187 trucks that make deliveries to each store approximately every week.

Seasonality

Oxxo stores experience periods of high demand in December, as a result of the holidays, and in July and August, as a result of increased consumption of beer and soft drinks during the hot summer months. The months of November and February are generally the weakest sales months for Oxxo stores. In general, colder weather during these months reduces store traffic and consumption of cold beverages.

Other Stores

FEMSA Comercio also operates other stores under the names Bara, Six and Matador.

Other Business Segment

Our other business segment consists of the following smaller operations that support our core operations:

Our commercial refrigerators, labels and flexible packaging subsidiaries. The refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 180,300 units at December 31, 2005. In 2005, this business sold 159,050 refrigeration units, 18% of which were sold to FEMSA Cerveza, 41% of which were sold to Coca-Cola FEMSA and the remainder of which were sold to third parties. The labeling and flexible packaging business has its facility in Monterrey with an annual production capacity of 13,500 tons of flexible packaging. In 2005, this business sold 19% of its label sales volume to FEMSA Cerveza, 11% to Coca-Cola FEMSA and 70% to third parties. Management believes that growth at these businesses will continue to reflect the marketing strategies of Coca-Cola FEMSA and FEMSA Cerveza.

Our logistics services subsidiary provides logistics services to Coca-Cola FEMSA, FEMSA Empaques, the packaging operations of FEMSA Cerveza, FEMSA Comercio and third party clients that either supply or participate directly in the Mexican beverage industry or in other industries. This business provides integrated logistics support for its clients supply chain, including the management of carriers and other supply chain services.

One of our subsidiaries is the owner of the *Mundet* brands of soft drinks and certain concentrate production equipment, which are licensed to and produced and distributed by Coca-Cola FEMSA.

Our corporate services subsidiary employs all of our corporate staff, including the personnel managing the areas of finance, corporate accounting, taxation, legal, financial and strategic planning, human resources and internal audit. Through this subsidiary, we direct, control, supervise and review the operations of our sub-holding companies. FEMSA Cerveza, FEMSA Comercio and our packaging subsidiaries pay management fees for the services provided to them. In addition, FEMSA Cerveza and Coca-Cola FEMSA have each entered into a services agreement pursuant to which they pay for specific services.

Description of Property, Plant and Equipment

As of December 31, 2005, we owned all of our manufacturing facilities and substantially all of our warehouses and distribution centers. Our properties primarily consisted of production and distribution facilities for our beer and soft drink operations and office space. In addition, FEMSA Comercio owns approximately 12% of the Oxxo store locations, while the other stores are located in properties that are rented under long-term lease arrangements with third parties.

The table below sets forth the location, principal use and production area of our production facilities, and the sub-holding company that owns such facilities.

Production Facilities of FEMSA

As of December 31, 2005

Sub-holding Company	Location	Principal Use	Production Area (in thousands of sq. meters)
Coca-Cola FEMSA			
Mexico	San Cristóbal de las Casas, Chiapas	Soft Drink Bottling Plant	24
	Cedro, Distrito Federal	Soft Drink Bottling Plant	18
	Cuautitlán, Estado de México	Soft Drink Bottling Plant	35
	Los Reyes la Paz, Estado de México	Soft Drink Bottling Plant	28
	Toluca, Estado de México	Soft Drink Bottling Plant	280
	Celaya, Guanajuato	Soft Drink Bottling Plant	87
	León, Guanajuato	Soft Drink Bottling Plant	38
	Morelia, Michoacan	Soft Drink Bottling Plant	50
	Juchitán, Oaxaca	Soft Drink Bottling Plant	27
	Ixtacomitán, Tabasco	Soft Drink Bottling Plant	90
	Apizaco, Tlaxcala	Soft Drink Bottling Plant	80
	Coatepec, Veracruz	Soft Drink Bottling Plant	96
Guatemala	Guatemala City	Soft Drink Bottling Plant	46
Nicaragua	Managua	Soft Drink Bottling Plant	71
Costa Rica	San José	Soft Drink Bottling Plant	52
Panama	Panama City	Soft Drink Bottling Plant	29
Colombia	Barranquilla	Soft Drink Bottling Plant	27
	Bogotá Norte	Soft Drink Bottling Plant	89
	Bucaramanga	Soft Drink Bottling Plant	27
	Cali	Soft Drink Bottling Plant	89
	Manantial	Soft Drink Bottling Plant	33
	Medellín	Soft Drink Bottling Plant	44
Venezuela	Antimano	Soft Drink Bottling Plant	14
	Barcelona	Soft Drink Bottling Plant	141
	Maracaibo	Soft Drink Bottling Plant	34
	Valencia	Soft Drink Bottling Plant	91
Brazil	Campo Grande	Soft Drink Bottling Plant	36
	Jundiaí	Soft Drink Bottling Plant	191
	Mogi das Cruzes	Soft Drink Bottling Plant	95
Argentina	Alcorta	Soft Drink Bottling Plant	73

Sub-holding Company	Location	Principal Use	Production Area (in thousands of sq. meters)
FEMSA Cerveza			
	Tecate, Baja California Norte	Brewery	597
	Toluca, Estado de México	Brewery	375
	Guadalajara, Jalisco	Brewery	105
	Monterrey, Nuevo León	Brewery	446
	Navojoa, Sonora	Brewery	517
	Orizaba, Veracruz	Brewery	362
	Pachuca, Hidalgo	Malt Plant	31
	San Marcos, Puebla	Malt Plant	110
	Ensenada, Baja California Norte	Beverage Cans	33
	Toluca, Estado de México	Beverage Cans	22
	Monterrey, Nuevo León	Crown Caps and Can Lids	51
	Acayucan, Veracruz	Silica Sand Mine	7
	Nogales, Veracruz	Bottle Decoration	26
	Orizaba, Veracruz	Glass Bottles	23

Insurance

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

Capital Expenditures and Divestitures

Our consolidated capital expenditures for the years ended December 31, 2005, 2004 and 2003 were Ps. 6,505 million, Ps. 7,147 million and Ps. 7,456 million, respectively, and were for the most part financed from cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

	Year Ended December 31,		
	2005	2004	2003
	(in millions of constant Mexican pesos)		
Coca-Cola FEMSA	Ps. 2,012	Ps. 2,009	Ps. 2,164
FEMSA Cerveza	2,882	3,276	3,855
FEMSA Comercio	1,368	1,703	1,311
Other	243	159	126
Total	Ps. 6,505	Ps. 7,147	Ps. 7,456

Coca-Cola FEMSA

During 2005, Coca-Cola FEMSA s capital expenditures focused on integration of its acquired territories, placing refrigeration equipment with retailers and investments in returnable bottles and cases, increasing plant operating efficiencies, improving the efficiency of its distribution infrastructure and advancing information technology. Capital expenditures in Mexico were approximately Ps. 1,021 million and accounted for most of its capital expenditures.

FEMSA Cerveza

Production

During 2005, FEMSA Cerveza invested approximately Ps. 316 million on equipment substitution and upgrades in its facilities. FEMSA Cerveza s monthly installed capacity as of December 31, 2005 was 2.8 million hectoliters, equivalent to an annualized installed capacity of 33.7 million hectoliters. In addition, FEMSA Cerveza invested Ps. 139 million in plant improvements and equipment upgrades for its beverage can and glass bottle operations.

Distribution

In 2005, FEMSA Cerveza invested Ps. 391 million in its distribution network. Approximately Ps. 126 million of this amount was invested in the replacement of trucks in its distribution fleet, Ps. 152 million in land and buildings and improvements to leased properties dedicated to various distribution functions, and the remaining Ps. 113 million in other distribution-related investments.

Market-related Investments

During 2005, FEMSA Cerveza invested approximately Ps. 2,000 million in market-related activities and brand support in the domestic market. Approximately 75% of these investments were directed to tied-customer agreements with retailers and commercial support to owned and third party distributors. Investments in retail agreements with tied customers that exceed a one-year term are capitalized and amortized over the life of the agreement. In general, FEMSA Cerveza s retail agreements are for a period of three to four years. Other market-related investments include the purchase of refrigeration equipment, coolers, plastic furniture and other promotional items. These items are placed with retailers as a means of facilitating the retailers ability to service consumers and to promote the image and profile of FEMSA Cerveza s brands.

Information Technology Investments

In addition, during 2005, FEMSA Cerveza invested Ps. 108 million in ERP system software.

FEMSA Comercio

FEMSA Comercio s principal investment activity is the construction and opening of new stores. During 2005, FEMSA Comercio opened 675 net new Oxxo stores. FEMSA Comercio invested Ps. 1,368 million in 2005 in the addition of new stores and improvements to leased properties.

Regulatory Matters

Competition Legislation

The *Ley Federal de Competencia Económica* (the Federal Economic Competition Law or the Mexican Competition Law) became effective on June 22, 1993. The Mexican Competition Law and the *Reglamento de la Ley Federal de Competencia Económica* (the Regulations under the Mexican Competition Law), effective as of March 9, 1998, regulate monopolies and monopolistic practices and require Mexican government approval of certain mergers and acquisitions. The Mexican Competition Law subjects the activities of certain Mexican companies, including us, to regulatory scrutiny. In addition, the Regulations under the Mexican Competition Law prohibit members of any trade association from reaching any agreement relating to the price of their products. Management believes that we are currently in compliance in all material respects with Mexican competition legislation.

In Mexico and in some of the other countries in which we operate, we are involved in different ongoing competition related proceedings. We believe that the outcome of these proceedings will not have a material

adverse effect on our financial position or results of operations. See Item 8. Financial Information Legal Proceedings Coca-Cola FEMSA Antitrust Matters and Item 8. Financial Information Legal Proceedings FEMSA Cerveza Antitrust Matters.

Environmental Matters

In all of the countries where we operate, our businesses are subject to federal and state laws and regulations relating to the protection of the environment.

Mexico

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

In addition, we are subject to the *Ley Federal de Derechos* (the Federal Law of Governmental Fees), also enforced by SEMARNAP. Adopted in January 1993, the law provides that plants located in Mexico City that use deep water wells to supply their water requirements must pay a fee to the city for the discharge of residual waste water to drainage. In 1995, municipal authorities began to test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by SEMARNAP. All of our bottler plants located in Mexico City, as well as the Toluca plant, met these new standards in 2001, and as a result, we were not subject to additional fees.

In 2004, Coca-Cola FEMSA built a plastic recycling plant in partnership with The Coca-Cola Company and ALPLA, which manufactures plastic bottles for Coca-Cola FEMSA in Mexico. This plant, which started operations in March 2005, is located in Toluca, Mexico, and has a recycling capacity of 15,000 metric tons per year.

Central America

Coca-Cola FEMSA s Central American operations are subject to several federal and state laws and regulations relating to the protection of the environment, which have been enacted in the last ten years, as awareness has increased in this region about the protection of the environment and the disposal of dangerous and toxic materials. In some countries in Central America, Coca-Cola FEMSA is in the process of bringing its operations into compliance with new environmental laws. For example, in Nicaragua Coca-Cola FEMSA is in the final phase of the construction of a water treatment plant located at its bottler plant in Managua. Also, Coca-Cola FEMSA s Costa Rica operations have participated in a joint effort along with the local division of The Coca-Cola Company called *Proyecto Planeta* (Project Planet) for the collection and recycling of non-returnable plastic bottles.

Colombia

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

Venezuela

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

Brazil

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

Argentina

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

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

Water Supply Law

FEMSA Cerveza and Coca-Cola FEMSA purchase water in Mexico directly from municipal water companies and pump water from their own wells pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the *Ley de Aguas Nacionales de 1992*

(the 1992 Water Law), and regulations issued thereunder, which created the *Comisión Nacional del Agua* (the National Water Commission). The National Water Commission is charged with overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run for five, ten, fifteen and up to thirty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms to be extended upon termination, which is a regular practice. These extensions are given for the same period of time given in the original concession. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for three consecutive years. However, because the current concessions for each of FEMSA Cerveza and Coca-Cola FEMSA s plants in Mexico do not match each plant s projected needs for water in future years, we successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. These concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees. We believe that we are in compliance with the terms of our existing concessions.

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

We do not currently require a permit to obtain water in our other territories. In Nicaragua, Costa Rica and some plants in Colombia, we own private water wells. In Argentina, we obtain water from Aguas Argentinas S.A., a privately-owned concessionaire of the Argentine government. In the remainder of our territories, we obtain water from governmental agencies or municipalities. In the past five years we have not had a water shortage in any of our territories, although we can give no assurances that water will be available in sufficient quantities to meet our future production needs or that additional regulations relating to water use will not be adopted in the future.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements and the notes to those financial statements. Our audited consolidated financial statements were prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. Notes 27 and 28 to our audited consolidated financial statements provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income, changes in stockholders equity and cash flows for the same periods presented for Mexican GAAP purposes and a reconciliation to U.S. GAAP of net income and stockholders equity. See U.S. GAAP Reconciliation.

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 position 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 completed the integration of the Panamco territories and for the full-year 2005 achieved sales volume, total revenue and operating income growth when compared to the full-year results of 2004.

- At FEMSA Cerveza, total beer sales volumes have increased in both Mexico and in the export market. FEMSA Cerveza increased its operating income ahead of total revenue growth for the 11th consecutive year. Heineken USA began distributing FEMSA Cerveza s beer brands in the United States on January 1, 2005 with very encouraging results.

- 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 2006.

- In May 2005, we issued equity through a public offering that resulted in net proceeds of US$700 million, which were used to pay down debt incurred to finance the purchase of the 30% minority interest of FEMSA Cerveza from InBev in August 2004.

Each of these items is discussed in further detail in this section. In addition, our results of operations and financial position are affected by the economic and market conditions in the countries where our subsidiaries conduct their operations, particularly in Mexico. Changes in these conditions are influenced by a number of factors, including those discussed in Item 3. Key Information Risk Factors.

Recent Developments

On January 13, 2006, FEMSA Cerveza acquired 68% of the equity of the Brazilian brewer Kaiser from Molson Coors. FEMSA Cerveza paid US$68 million to Molson Coors to acquire 68% of Kaiser. At closing, Kaiser had financial debt of approximately US$60 million and certain contingent liabilities and claims. As part of the transaction to acquire Kaiser, FEMSA Cerveza has received certain indemnity provisions from Molson Coors. Molson Coors retained a 15% ownership stake in Kaiser, while Heineken s previous ownership of 17% remained unchanged.

Comparability of Information Presented-Panamco Acquisition

Under Mexican GAAP, Panamco is included in our audited consolidated financial statements since May 2003 and is not included prior to this date. As a result, our consolidated financial information for the year ended

December 31, 2003 is not comparable to subsequent periods. The acquisition of Panamco only impacts the comparability of our consolidated information and of the Coca-Cola FEMSA segment. The comparability of our remaining segments is not affected by the acquisition.

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, 2005, 2004 and 2003, 82.0%, 80.0% and 84.1%, respectively, of our total sales were attributable to Mexico. After the acquisitions of Panamco and Kaiser, we have greater exposure to countries in which we have not historically conducted operations, particularly countries in Central America, Colombia, Venezuela and Brazil, although we continue to generate a substantial portion of our total sales from Mexico. The participation of these other countries as a percentage of our total sales may increase in future periods, in particular, as Kaiser will be included in our consolidated financial information beginning in January 2006.

Our future results may be significantly affected by the general economic and financial positions 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 our debt obligations denominated in U.S. dollars, and thereby may negatively affect our financial position 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 and FEMSA Cerveza 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. Alternatively, periods of decreased utilization because of lower volumes will negatively affect our operating margins.

Critical Accounting Estimates

The preparation of our audited 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

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 5, 6 and 7 to our audited consolidated financial statements. We believe our most critical accounting policies that imply the application of estimates and/or judgments are the following:

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 considers 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

Returnable bottles and cases are recorded at acquisition cost and restated to their replacement cost. For the year ended December 31, 2005, FEMSA Cerveza classified returnable bottles and cases as inventory. Beginning on January 1, 2006, FEMSA Cerveza classifies bottles and cases as part of property, plant and equipment because the company considers them to be long-lived assets. For both of these subsidiaries, breakage is expensed as incurred, and returnable bottles and cases are not depreciated. Whenever we decide to discontinue a particular returnable presentation and retire it from the market, we write-off the discontinued presentation through an increase in the breakage expense. We determine depreciation of bottles and cases only for tax purposes. FEMSA Cerveza decided that beginning in 2005 for tax purposes, it would classify bottles and cases as fixed assets and compute depreciation using the straight-line method at an annual rate of 10%. This change in classification did not impact the total amount of taxes payable, but it generated surcharges over taxes not paid in prior years.

We periodically compare the carrying value of bottle breakage expense with the calculated depreciation expense of our returnable bottles and cases in plant and distribution centers, estimating a useful life of five years for glass beer bottles, four years for returnable glass soft drink bottles and plastic cases and one year for returnable plastic bottles. These useful lives are determined in accordance with our business experience. The annual calculated depreciation expense has been similar to the annual carrying value of bottle 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 breakage expense.

Property, plant and equipment

Property, plant and equipment are depreciated over their estimated 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 7 (g) to our audited consolidated financial statements, 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 expected to be generated based on their estimated remaining useful life as determined by Coca-Cola FEMSA management.

In 2003, we decided to increase from three to five years the estimated 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. 100 million due to the change in our accounting estimate. The useful life of refrigerators for the acquired territories is in accordance with the revised accounting estimate of five years.

Valuation of intangible assets and goodwill

As we discuss in note 7 (i) to our audited consolidated financial statements, beginning in 2003 we began to apply Bulletin C-8, *Activos Intangibles* (Intangible Assets), which establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Additionally, Bulletin C-8 requires identifying all intangible assets to reduce as much as possible the goodwill associated with business acquisitions. Prior to 2003, the excess of the purchase price over the fair value of the net assets acquired 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 *Coca-Cola* trademark 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 by Bulletin C-8, we determined the fair value of assets acquired and liabilities assumed as of the date of acquisition, and we assigned the excess purchase price over the fair value of the net assets. In certain circumstances this resulted in the recognition of an intangible asset. The intangible assets are subject to annual impairment tests under U.S. GAAP and Mexican GAAP. We have recorded intangible assets with indefinite lives, which consist of:

- Coca-Cola FEMSA s rights to produce and distribute *Coca-Cola* trademark products for Ps. 37,153 million as a result of the Panamco acquisition;

- Trademarks and distribution rights for Ps. 9,464 million as a result of the acquisition of the 30% interest of FEMSA Cerveza; and

- *Mundet* trademark for Ps. 150 million.

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 factors of the country of origin and the year-end exchange rate. Until December 31, 2004, goodwill was amortized using the straight-line method over a period of no more than 20 years. The amount of goodwill amortization in 2004 and 2003 was Ps. 14 million and Ps. 15 million, respectively. In 2005, Bulletin B-7, *Adquisiciones de Negocios* (Business Acquisitions), was issued, which establishes that goodwill is no longer subject to amortization, being subject instead to an annual impairment test.

Impairment of goodwill and long-lived assets

We continually review the carrying value of our goodwill and long-lived assets for impairment. 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 estimated discounted future cash flows to be generated by those assets. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.

During 2003, FEMSA Cerveza recognized an impairment of certain fixed assets to be replaced in accordance with its master investment plan. The replacement cost of the new machinery and equipment

compared to the carrying value of these assets resulted in a loss, which was recorded in other expenses in the income statement of Ps. 740 million. In addition, during 2004, we determined the fair value of the fixed assets of FEMSA Cerveza due to the acquisition of the 30% interest of FEMSA Cerveza, and as a result, we recognized a loss in the income statement of Ps. 333 million, which corresponded to the remaining 70% interest of FEMSA Cerveza.

Our evaluations during 2005 and up to the date of this annual report 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. Future changes in economic or political conditions in any country 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 sales 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 determination of certain assumptions used by independent actuaries in calculating such amounts. We evaluate our assumptions at least annually. Those assumptions are described in note 17 to our audited consolidated financial statements and include the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation costs. All of our assumptions depend on the economic circumstances of each country in which we operate.

In accordance with Mexican GAAP, actual results that differ from our assumptions (actuarial gains or losses) 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 2006 annual pension expense for Mexico, along with the impact on pension expense of a 1% change in each assumed rate.

Assumption	2006 Rate[1] (in real terms)	Impact of Rate Change[2] +1%	-1%
		(in millions of Mexican pesos)	
Mexican Subsidiaries:			
Discount rate	6.0%	Ps. (324)	Ps. 260
Salary increase	2.0%	203	(255)
Return on assets	6.0%	(324)	260
Foreign Subsidiaries:			
Discount rate	4.5%	(36)	40
Salary increase	1.5%	27	(22)
Return on assets	4.5%	(36)	40

(1) Calculated using a measurement dated as of November 2005.

(2) 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 taxes for recoverability and/or payment, 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 taxes resulting in an impact in net income.

On December 1, 2004, an amendment to the Mexican income tax law was published and became effective as of January 1, 2005. Under this amendment:

The statutory income tax rate decreased to 30% for 2005 and will be subsequently reduced by one percentage point per year through 2007, when the rate will be 28%;

The tax deduction for inventories will be made through cost of sales, and the inventory balance as of December 31, 2004 will be taxable during the next four to 12 years, based on specific criteria provided in the tax law;

Paid employee profit sharing will be deductible for income tax purposes; and

The limit on stockholders participation in taxable income or loss from Mexican subsidiaries will be eliminated for tax consolidation purposes.

This amendment reduced the deferred income tax liability in 2004, which we recorded as a reduction in taxes in our income statement, by an amount equal to Ps. 622 million.

Tax and legal contingencies

We are subject to various claims and contingencies related to tax and legal proceedings as described in note 25 to our audited consolidated financial statements. 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.

Derivative Financial Instruments

As we mention in note 7 (q) to our consolidated financial statements, beginning in 2005 we began to apply Bulletin C-10, *Instrumentos Financieros Derivados y Operaciones de Cobertura* (Derivative Financial Instruments and Hedging Activities), which requires us to measure all derivative financial instruments at fair value and recognize them in the balance sheet as an asset or liability. Changes in the fair value of derivative financial instruments are recorded each year in net income or as part of other comprehensive income, based on the type of hedging instrument and the effectiveness of the hedge. The fair values of derivative financial instruments are determined using forward price curves. We base our forward price curves upon market price quotations.

We use derivative financial instruments in the normal course of business to manage our exposure to fluctuations in production and packaging material prices, interest rates and foreign currency exchange rates. By policy we do not enter into such contracts for trading purposes or for the purpose of speculation.

Prior to Bulletin C-10, the company s derivative financial instruments entered into for hedging purposes were valued using the same valuation criteria applied to the hedged asset or liability, and their fair values were disclosed in the notes to our financial statements. Additionally, derivative financial instruments entered into for purposes other than hedging were valued and recorded at fair value. The difference between the derivative financial instrument s initial value and fair value was recorded in the income statement.

Beginning in 2005, the company records the effect of its embedded derivative financial instruments, which result from implicit or explicit terms in its contracts that affect some or all of the cash flows or value of other exchanges required by the contract in a manner similar to a derivative financial instrument. An embedded derivative that meets certain criteria is separated from the host contract and accounted for as derivative financial instrument.

The cumulative effect, net of taxes, of adopting Bulletin C-10 was the recognition of an asset of Ps. 80 million, of which Ps. 46 million was recorded in the 2005 income statement as a change in accounting principle and Ps. 34 million was recorded in other comprehensive income.

New Accounting Pronouncements

Beginning January 1, 2006, we will adopt the following new accounting standards. We do not currently anticipate any significant impact on our consolidated financial position or results of operations.

Under Mexican GAAP

As of May 31, 2004, the Mexican Institute of Public Accountants (IMCP) formally transferred the function of establishing and issuing financial reporting standards to the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), consistent with the international trend of requiring that this function be performed by an independent entity.

Accordingly, the task of establishing bulletins on Mexican GAAP and circulars previously issued by the IMCP was transferred to the CINIF, who subsequently renamed standards of Mexican GAAP as *Normas de Informacíon Financiera* (Financial Reporting Standards, or NIFs), and determined that NIFs encompass (i) new bulletins established under the new function; (ii) any interpretations issued thereon; (iii) any Mexican

GAAP bulletins that have not been amended, replaced or revoked by the new NIFs; and (iv) International Financial Reporting Standards (IFRS) as supplementary guidance to be used when Mexican GAAP does not provide primary guidance.

One of the main objectives of the CINIF is to attain greater concurrence with IFRS. To this end, it started by reviewing the theoretical concepts contained in Mexican GAAP and establishing a Conceptual Framework to support the development of financial reporting standards and to serve as a reference in solving issues arising in the accounting practice. The Conceptual Framework is formed by eight financial reporting standards, which comprise the NIF A series. The NIF A series, together with NIF B-1, were issued on October 31, 2005. Their provisions are effective for years beginning January 1, 2006, superseding all existing Mexican GAAP series A bulletins.

The most significant changes established by these standards are as follows:

In addition to the statement of changes in financial position, NIF A-3 includes the statement of cash flows, which should be issued when required by a particular standard.

NIF A-5 includes a new classification for revenues and expenses as either ordinary or extraordinary. Ordinary revenues and expenses are derived from transactions or events that are within the normal course of business or that are inherent in the entity s activities, whether frequent or not, while extraordinary revenues and expenses refer to unusual transactions and events, whether frequent or not.

NIF A-7 requires the presentation of comparative financial statements, at a minimum, for the preceding period. Through December 31, 2004, the presentation of prior years financial statements was optional. The financial statements must disclose the authorized date for their issuance, and the name(s) of the officer(s) or administrative bodies authorizing the related issuance.

NIF B-1 establishes that changes in particular standards, reclassifications and corrections of errors must be recognized retroactively. Consequently, basic financial statements presented on a comparative basis with the current year that might be affected by the change, must be adjusted as of the beginning of the earliest period presented.

Under U.S. GAAP

SFAS No. 123(R), Share-Based Payments. This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board, or APB, Opinion No. 25, Accounting for Stock Issued to Employees to stock compensation awards issued to employees. Rather, SFAS No. 123(R) requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, or the requisite service period (usually the vesting period). SFAS No. 123(R) applies to all awards granted after the required effective date and to awards modified, repurchased or cancelled after that date. SFAS No. 123(R) will be effective for our fiscal year ending December 31, 2006. We do not grant stock options to employees.

SFAS No. 151, Inventory Costs. SFAS No. 151 is an amendment to Accounting Research Bulletin, or ARB, No. 43. It states that abnormal amounts of the idle capacity expense, freight, handling costs and wasted materials should be recognized as current period charges and requires the allocation of fixed production overhead costs to inventory based on the normal capacity of the production facilities. This guidance is effective for inventory costs incurred during the fiscal years beginning after June 15, 2005, with earlier application allowed for inventory costs incurred during fiscal years beginning after November 23, 2004.

SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. In December 2004, the Financial Accounting Standards Board issued SFAS No. 153, which amends APB Opinion No. 29, Accounting for Nonmonetary Transactions to eliminate the exception for nonmonetary exchanges of similar

productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005.

SFAS No. 154, Accounting Changes And Error Corrections A Replacement Of APB Opinion No. 20 And FASB Statement No. 3. In May 2005, the FASB issued SFAS No. 154. This statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle and also to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle instead of recognizing voluntary changes in accounting principle by including in net income of the period the change of the cumulative effect referring to a new pronouncement. This guidance should be applied for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

Emerging Issues Task Force (EITF) Issue No. 96-16, Investor s Accounting for an Investee when the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders have certain Approval or Veto Rights. In June 2005, the Task Force agreed to amend Item 4 of the Protective Rights section of this consensus as well as Example 1 of Exhibit 96-16A to be consistent with the consensus reached in Issue 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls limited Partnership Rights. EITF 96-16 Item 4 specifies that the acquisitions or dispositions of assets that are not expected to be undertaken in the ordinary course of business are considered a protective right and this does not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. This amendment should be applied to new investments and to investment agreements that are modified after June 29, 2005. The consensus of this amendment to EITF 96-16 does not change our current equity method accounting for our investment in Coca-Cola FEMSA in our U.S. GAAP consolidated financial statements.

EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. On November 3, 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, The Meaning of other-than-temporary Impairment and its Application to certain Investments. This FASB Staff Position (FSP) addresses the determination as to when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting consideration subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends SFAS No. 115, Accounting for certain Investments in Debt and Equity Securities, and SFAS No. 124, Accounting for certain Investments Held by Not-for-Profit Organizations, and APB Opinion No. 18, The Equity method of accounting for Investments in Common Stock. We will adopt the recognition and measurement guidance of EITF 03-1 in 2006, when applicable.

EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty. In September 2005, the FASB ratified the consensus reached by the Task Force regarding EITF 04-13. This guidance addresses the circumstances under which two or more inventory transactions with the same counterparty should be viewed as a single nonmonetary transaction with the scope of APB Opinion No. 29, Accounting for Nonmonetary Transactions. The Task Force reached a consensus that nonmonetary exchange whereby an entity transfers finished goods inventory in exchange for the receipt of raw materials or work-in-progress inventory within the same line of business is not considered an exchange transaction to facilitate sales customers as described in APB Opinion No. 29 paragraph 20(b) and therefore should be recognized by the entity at fair value if it is determinable within reasonable limits and the transaction has commercial substance. All other nonmonetary exchanges of inventory within the same line of business should be recognized at the carrying amount of the inventory transferred. The Task Force agreed that this consensus should be applied to transactions completed in reporting periods beginning after March 2006. We will adopt this guidance in 2006.

EITF Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements Purchased After Lease Inception or Acquired in a Business Combination. In June 2005, the Task Force reached a consensus on EITF Issue No. 05-6. This guidance determines that leasehold improvements acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes required lease period and renewals that are deemed to be reasonably assured at the date of acquisition. The Task Force also agreed that leasehold improvements that are placed in service significantly after and not contemplated at or near beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvements are purchased. This consensus should be applied to leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005.

FSP FAS 13-1, Accounting for Rental Costs Incurred During a Construction Period. In October 2005, the FASB stated that there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore rental costs associated with ground or building operating leases that are incurred during the construction period shall be recognized as a rental expense. This guidance shall be applied to the first reporting period beginning after December 15, 2005. Currently, for U.S. GAAP purposes, we record rental expenses in our consolidated income statement as incurred.

Operating Results

The following table sets forth our consolidated income statement under Mexican GAAP for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,			
	2005	2005	2004	2003
	(in millions of U.S. dollars and constant Mexican pesos at December 31, 2005)			
Net sales	$ 9,884	Ps. 105,045	Ps. 96,201	Ps. 82,041
Other operating revenues	51	537	632	455
Total revenues	9,935	105,582	96,833	82,496
Cost of sales	5,288	56,195	51,222	42,700
Gross profit	4,647	49,387	45,611	39,796
Operating expenses:				
Administrative	667	7,085	6,873	5,905
Selling	2,513	26,715	24,502	20,818
Total operating expenses	3,180	33,800	31,375	26,723
Income from operations	1,467	15,587	14,236	13,073
Interest expense	(425)	(4,520)	(3,894)	(2,679)
Interest income	60	638	572	770
Interest expense, net	(365)	(3,882)	(3,322)	(1,909)
Foreign exchange gain (loss)	34	357	(14)	(2,752)
Gain on monetary position	104	1,117	2,004	1,038
Integral result of financing	(227)	(2,408)	(1,332)	(3,623)
Other expenses, net	(45)	(483)	(813)	(598)
Income before taxes and employee profit sharing	1,195	12,696	12,091	8,852
Taxes and employee profit sharing	431	4,584	2,533	3,785
Income before change in accounting principle	764	8,112	9,558	5,067
Change in accounting principle, net of taxes	4	46		
Consolidated net income	$ 768	Ps. 8,158	Ps. 9,558	Ps. 5,067
Net majority income	522	5,549	6,027	3,408
Net minority income	246	2,609	3,531	1,659
Consolidated net income	$ 768	Ps. 8,158	Ps. 9,558	Ps. 5,067

Operating Results

The following table sets forth certain operating results by reportable segment under Mexican GAAP for each of our segments for the years ended December 31, 2005, 2004 and 2003:

	Year Ended December 31,				
				Percentage Growth	
	2005	2004	2003	2005 vs. 2004	2004 vs. 2003
	(in millions of constant Mexican pesos at December 31, 2005, except for percentages)				
Net sales					
Coca-Cola FEMSA	Ps. 49,840	Ps. 47,442	Ps. 38,664	5.1%	22.7%
FEMSA Cerveza	27,411	25,575	24,771	7.2%	3.2%
FEMSA Comercio	28,734	23,599	18,914	21.8%	24.8%
Total revenues					
Coca-Cola FEMSA	50,198	47,787	39,062	5.0%	22.3%
FEMSA Cerveza	27,573	25,802	24,956	6.9%	3.4%
FEMSA Comercio	28,734	23,599	18,914	21.8%	24.8%
Cost of sales					
Coca-Cola FEMSA	25,486	24,351	19,614	4.7%	24.2%
FEMSA Cerveza	11,122	10,618	10,328	4.7%	2.8%
FEMSA Comercio	21,111	17,334	13,942	21.8%	24.3%
Gross profit					
Coca-Cola FEMSA	24,712	23,436	19,448	5.4%	20.5%
FEMSA Cerveza	16,451	15,184	14,628	8.3%	3.8%
FEMSA Comercio	7,623	6,265	4,972	21.7%	26.0%
Income from operations					
Coca-Cola FEMSA	8,683	7,988	7,340	8.7%	8.8%
FEMSA Cerveza	5,353	4,902	4,634	9.2%	5.8%
FEMSA Comercio	1,259	941	761	33.8%	23.7%
Depreciation					
Coca-Cola FEMSA[1]	2,250	2,032	1,645	10.7%	23.5%
FEMSA Cerveza	1,476	1,519	1,537	(2.8)%	(1.2)%
FEMSA Comercio	323	223	143	44.8%	55.9%
Gross margin[2]					
Coca-Cola FEMSA	49.2%	49.0%	49.8%	0.2%	(0.8)%
FEMSA Cerveza	59.7%	58.8%	58.6%	0.9%	0.2%
FEMSA Comercio	26.5%	26.5%	26.3%		0.2%
Operating margin					
Coca-Cola FEMSA	17.3%	16.7%	18.8%	0.6%	(2.1)%
FEMSA Cerveza	19.4%	19.0%	18.6%	0.4%	0.4%
FEMSA Comercio	4.4%	4.0%	4.0%	0.4%	

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

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

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

FEMSA Consolidated

Total Revenues

Consolidated total revenues increased 9.0% to Ps. 105,582 million in 2005 compared to Ps. 96,833 million in 2004. Consolidated net sales increased 9.2% to Ps. 105,045 million in 2005 compared to Ps. 96,201 million in 2004. All of FEMSA s operations soft drinks, beer, and retail contributed positively to this high single-digit pace. FEMSA Comercio was the largest contributor to consolidated total revenue growth in 2005, representing approximately 60% of the increase. FEMSA Comercio s total revenues increased 21.8% to Ps. 28,734 million, due in large part to the 675 net new stores opened during the year. Most of the remaining growth came from Coca-Cola FEMSA and FEMSA Cerveza. Coca-Cola FEMSA s total revenues increased 5.0% to Ps. 50,198 million, mainly due to increased prices and volume growth in Mexico, Brazil and Colombia. FEMSA Cerveza posted total revenue growth of 6.9% to Ps. 27,573 million, due primarily to a 5.2% increase in total sales volume and a 2.3% increase in the total real price per hectoliter.

Gross Profit

Consolidated cost of sales increased 9.7% to Ps. 56,195 million in 2005 compared to Ps. 51,222 million in 2004. Approximately 76% of this increase resulted from FEMSA Comercio and its rapid pace of store expansion.

Consolidated gross profit increased 8.3% to Ps. 49,387 million in 2005 compared to Ps. 45,611 million in 2004, with Coca-Cola FEMSA, FEMSA Cerveza and FEMSA Comercio each representing approximately one-third of the increase. Gross margin decreased 0.3 percentage points to 46.8% of consolidated total revenues in 2005, compared to 47.1% of consolidated total revenues in 2004. We achieved an expanding or stable gross margin in all of our main business units and the slight decline in consolidated gross margin from 2004 levels resulted from the increased contribution of FEMSA Comercio in our consolidated financial results, which has a lower gross margin relative to our other operations.

Income from Operations

Consolidated operating expenses increased 7.7% to Ps. 33,800 million in 2005 compared to Ps. 31,375 million in 2004. Approximately 43% of this increase was due to FEMSA Comercio s rapid growth and 34% was attributable to FEMSA Cerveza, which increased selling expenses in connection with its new agreement with Heineken USA and also increased advertising for new products and presentations in the domestic market. As a percentage of total revenues, consolidated operating expenses declined 0.4 percentage points to reach 32.0% in 2005 compared with 32.4% in 2004.

Consolidated administrative expenses increased 3.1% to Ps. 7,085 million in 2005 versus Ps. 6,873 million in 2004. The lower level of administrative expenses relative to total revenue growth resulted from a 0.2% reduction in expenses at Coca-Cola FEMSA and a decrease in expenses as a percentage of total revenues at FEMSA Cerveza and FEMSA Comercio. As a percentage of total revenues, consolidated administrative expenses decreased 0.4 percentage points to reach 6.7% in 2005 compared with 7.1% in 2004.

Consolidated selling expenses increased 9.0% to Ps. 26,715 million in 2005 as compared to Ps. 24,502 million in 2004. Approximately 46% of this increase was due to FEMSA Comercio s rapid rate of growth, and approximately 32% was due to FEMSA Cerveza s increased expenses related to the new agreement with Heineken USA and increased advertising for new products and presentations in the domestic market. As a percentage of total revenues, selling expenses remained stable at 25.3% in 2005 compared with 25.3% in 2004.

We incur various expenses related to the distribution of our products that are accounted for in our selling expenses. During 2005 and 2004, our distribution costs amounted to Ps. 9,252 million and Ps. 8,692 million,

respectively. The exclusion of these charges from our cost of sales 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 calculating gross profit or an equivalent measure.

Consolidated income from operations increased 9.5% to Ps. 15,587 million in 2005 as compared to Ps. 14,236 million in 2004. Almost half of this increase resulted from Coca-Cola FEMSA and its solid top-line growth combined with reduced expenses. The remaining amount is attributable to FEMSA Cerveza and FEMSA Comercio, representing 33% and 24%, respectively. Consolidated operating margin increased 0.1 percentage points from 2004 levels to 14.8% of consolidated total revenues in 2005. The stable operating margin was primarliy due to operating margin improvements at Coca-Cola FEMSA and FEMSA Cerveza that completely offset the increased contribution of FEMSA Comercio, which is our fastest growing business with the lowest operating margin relative to our other core operations.

Some of our subsidiaries pay management fees to FEMSA in consideration for corporate services provided to them. These fees are recorded as administrative expenses in the respective business segments. Our subsidiaries   payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses.

Coca-Cola FEMSA

Total Revenues

Coca-Cola FEMSA   s total revenues increased 5.0% to Ps. 50,198 million in 2005 compared to Ps. 47,787 million in 2004. Net sales increased 5.1% to Ps. 49,840 million in 2005 compared to Ps. 47,442 million in 2004 and represented 99.3% of total revenues in 2005. Total revenue growth primarily resulted from Mexico, Brazil and Colombia, accounting for approximately 51%, 26% and 17%, of the incremental total revenues, respectively.

Sales volume reached 1,889 million unit cases in 2005 compared to 1,812 million unit cases in 2004, which represents an increase of 4.3%. Most of the increase came from carbonated soft drink volume growth of 3.6% in 2005. The *Coca-Cola* brand accounted for over 50% of the incremental volume.

Average price per unit case (calculated by dividing net sales by total sales volume) increased 0.8% from Ps. 26.18 in 2004 to Ps. 26.38 in 2005. The increase was primarily due to price increases in all our territories except for Central America. Price increases implemented during the year mainly in Venezuela, Colombia and Argentina, combined with better packaging and product mix in Mexico and Brazil, resulted in higher average prices per unit case.

Gross Profit

Cost of sales increased 4.7% to Ps. 25,486 million in 2005 compared to Ps. 24,351 million in 2004. As a percentage of total revenues, cost of sales decreased 0.2 percentage points to reach 50.8% of sales in 2005, slightly below 2004 levels. Lower sweetener costs in Mexico and Colombia, combined with the appreciation of local currencies in the majority of our territories applied to U.S. dollar-denominated costs, more than compensated for increases in prices for resin used to produce plastic bottles.

Gross profit increased 5.4% to Ps. 24,712 million in 2005 compared to Ps. 23,436 million in 2004, resulting in a gross margin of 49.2%. Brazil and Mexico accounted for 90% of this growth. Gross margin improved 0.2 percentage points as a result of higher average prices per unit case in all our territories, except for Central America, and relatively stable average costs per unit case on a consolidated basis.

Income from Operations

Operating expenses increased 3.8% to Ps. 16,029 million in 2005 compared to Ps. 15,448 million in 2004. As a percentage of total revenues, operating expenses declined from 32.3% in 2004 to 31.9% in 2005 due to

higher fixed-cost absorption driven by incremental volumes and higher average price per unit case. Administrative expenses declined 0.2% to Ps. 2,819 million in 2005 from Ps. 2,824 million in 2004. Selling expenses increased 4.6% to Ps. 13,210 million in 2005 compared to Ps. 12,624 million in 2004. At 26.3% of total revenues, selling expenses decreased 0.1 percentage points from 2004 levels.

Income from operations increased 8.7% to Ps. 8,683 million in 2005 compared to Ps. 7,988 million in 2004. Growth in Mexico, Brazil and Colombia more than compensated for operating income decline in Central America and Venezuela. Operating margin improved by 0.6 percentage points to 17.3% in 2005 compared to 16.7% in 2004.

FEMSA Cerveza

Total Revenues

FEMSA Cerveza total revenues increased 6.9% to Ps. 27,573 million in 2005 as compared to Ps. 25,802 million in 2004. Net sales increased 7.2% to Ps. 27,411 million in 2005 compared to Ps. 25,575 million in 2004. Net sales, which include beer and packaging sales, represented 99.4% of total revenues. This growth was primarily due to total beer sales volume growth of 5.2%, a 2.3% increase in total real price per hectoliter and a 2.9% increase in packaging sales.

Domestic beer sales volume increased 4.9% to 24.580 million hectoliters in 2005 compared to 23.442 million hectoliters in 2004. The increased product innovation, broader availability of our beers supported by the expansion of Oxxo, successful execution at the point of sale, and revenue management initiatives produced this top-line growth. During the year, we rolled out an unprecedented amount of new products and presentations, launching 200 new SKUs throughout the country.

Export beer sales volume increased 8.8% to 2.438 million hectoliters in 2005 compared to 2.240 million hectoliters in 2004. This result was slightly above our expectations thanks to the work of Heineken USA, which enabled us to outpace import category growth in the United States. It has been one full year since Heineken USA became our U.S. importer, and we believe that the continued focus towards increasing the overall availability of our brands and improving our performance across the entire country will continue to be important for 2006.

Gross Profit

Cost of sales increased 4.7% in 2005 and as a percentage of total revenues decreased 0.9 percentage points from 2004. Cost of sales reached Ps. 11,122 million in 2005 compared to Ps. 10,618 million in 2004. Gross profit reached Ps. 16,451 million in 2005 compared to Ps. 15,184 million in 2004, resulting in a gross margin of 59.7% as compared to 58.8%. The gross margin expanded 0.9% as a result of higher prices per hectoliter in exports due to the new Heineken agreement structure, which did not apply in 2004, the strength of the Mexican peso as applied to U.S. dollar-denominated raw materials, and operating efficiencies.

Until January 1, 2005, we were a party to an agreement with Labatt USA for the sale of our beer in the U.S. market. Under this agreement, we sold our beer to Labatt USA at a price that gave Labatt USA margin sufficient to cover most of the selling and marketing expenses for our brands in the U.S. market and, as 30% owners of Labatt USA, we received an equivalent proportion of Labatt USA s profits as equity income. Beginning on January 1, 2005, our exports to the U.S. market are through a new commercial agreement with Heineken USA. Under this new agreement, we export our beer to the U.S. market at a higher price than under our previous arrangement with Labatt USA, and we pay a significant component of the selling and marketing expenses of our brands in the U.S. market. We no longer have any equity participation in connection with our exports to the U.S. market.

Income from Operations

Operating expenses increased 7.9% to Ps. 11,098 million in 2005 compared to Ps. 10,282 million in 2004. Administrative expenses increased 3.0% to Ps. 3,455 million in 2005 compared to Ps. 3,355 million in 2004.

Selling expenses increased 10.3% to Ps. 7,643 million in 2005 as compared with Ps. 6,927 million in 2004. Most of this increase was due to additional market spending under the new agreement with Heineken USA and increased domestic advertising spending for new products and presentations.

Income from operations increased 9.2% to Ps. 5,353 million in 2005 compared to Ps. 4,902 million in 2004. This reflects an increase in total revenues and reduced cost of sales relative to revenues, which more than compensated for increased operating expenses.

FEMSA Comercio

Total Revenues

FEMSA Comercio total revenues increased 21.8% to Ps. 28,734 million in 2005 compared to Ps. 23,599 million in 2004. The increase in total revenues was mainly a result of the aggressive expansion of the Oxxo convenience store chain, which added 675 net new Oxxo stores during 2005. As of December 31, 2005, we had 4,141 Oxxos nationwide. This is Oxxo s 10th consecutive year of increasing the number of new store openings.

Same-store sales of Oxxo increased an average of 8.7% in 2005, reflecting an increase in the average ticket of 1.3% and an increase in store traffic of 7.2%. This increase reflects rapid store expansion and stronger category management practices, such as tailored product offerings within the stores.

Gross Profit

Cost of sales increased 21.8% to Ps. 21,111 million in 2005, in-line with total revenue growth, compared with Ps. 17,334 million in 2004. As a result, gross profit reached Ps. 7,623 million in 2005, which represented a 21.7% increase from 2004. Gross margin remained in-line with 2004 levels at 26.5%.

Income from Operations

Operating expenses increased 19.5% to Ps. 6,364 million in 2005 compared with Ps. 5,324 million in 2004. Administrative expenses increased 4.8% to Ps. 585 million in 2005 compared with Ps. 558 million in 2004. Selling expenses increased 21.3% to Ps. 5,779 million in 2005 compared with Ps. 4,766 million in 2004. In 2005, selling expenses represented 20.1% of total revenues, remaining in line with 2004 levels, which were also 20.1%.

Income from operations increased 33.8% to Ps. 1,259 million in 2005 compared with Ps. 941 million in 2004. This increase was above revenue growth, and contributed to a 0.4 percentage point increase in operating margin which reached 4.4% in 2005 compared with 4.0% in 2004.

FEMSA Consolidated Net Income

Integral Result of Financing

Net interest expense reached Ps. 3,882 million in 2005 compared with Ps. 3,322 million in 2004, despite the reduction in overall debt, resulting primarily from higher interest expense due to the conversion through currency swaps of U.S. dollar denominated debt into Mexican pesos.

Foreign exchange (loss/gain) amounted to a gain of Ps. 357 million in 2005 compared with a loss of Ps. 14 million in 2004. This significant gain resulted from the positive effect of the strength of the Mexican peso on our U.S. dollar-denominated debt during 2005.

Monetary position amounted to a gain of Ps. 1,117 million in 2005 compared with a gain of Ps. 2,004 million in 2004. The decrease in the amount of our gain in 2005 compared with 2004 reflects the lower inflation on our reduced liabilities recorded in 2005.

Taxes

Tax recognized in 2005, which includes income tax, tax on assets and employee profit sharing, amounted to Ps. 4,584 million compared to Ps. 2,533 million in 2004. The 81.0% increase from 2004 is primarily due to a one-time deferred tax benefit that was recognized at Coca-Cola FEMSA in the amount of Ps. 1,355 million during that year. Consequently, the effective tax rate in 2005 was 36% compared to 21% in 2004.

Net Income

Net income decreased 14.6% to Ps. 8,158 million in 2005 compared to Ps. 9,558 million in 2004. This decrease was due to higher taxes relative to 2004 because of the one-time deferred tax benefit recognized at Coca-Cola FEMSA during 2004, to higher interest expense as we continued to convert our U.S. dollar denominated debt into Mexican pesos and to a lower monetary gain due to the lower inflationary impact on our reduced liabilities recorded in 2005.

Net majority income amounted to Ps. 5,549 million in 2005 compared with Ps. 6,027 million in 2004, a decrease of 7.9% from 2004 levels. Net majority income per FEMSA BD Unit was Ps. 4.652 for full year 2005. Net majority income per ADS, considering an exchange rate of Ps. 10.711 per dollar, was US$ 4.34 in 2005.

Results of Operations For Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

FEMSA Consolidated

Total Revenues

Consolidated total revenues increased 17.4% to Ps. 96,833 million in 2004 compared to Ps. 82,496 million in 2003. Consolidated net sales increased 17.3% to Ps. 96,201 million in 2004 compared to Ps. 82,041 million in 2003 and represented 99.3% of total revenues in 2004, compared to 99.4% in 2003. All of FEMSA s operations soft drinks, beer and retail contributed positively to these increases. Coca-Cola FEMSA was the largest contributor to consolidated total revenue growth in 2004, representing approximately 61% of the increase. Coca-Cola FEMSA s total revenues increased 22.3% to Ps. 47,787 million, mainly due to the inclusion of the acquired territories for 12 months of 2004. Most of the remaining growth came from FEMSA Comercio and FEMSA Cerveza. FEMSA Comercio s total revenue increased by 24.8% to Ps. 23,599 million, due in large part to the 668 net new stores opened during the year. FEMSA Cerveza contributed to a lesser extent with total revenue growth of 3.4% to Ps. 25,802 million, due to a 4.5% increase in total sales volume and a 2.3% increase in the export real price per hectoliter, which together more than offset a 1.4% decrease in domestic real price per hectoliter.

Gross Profit

Consolidated cost of sales increased 20.0% to Ps. 51,222 million in 2004 compared to Ps. 42,700 million in 2003. Approximately 56% of this increase resulted from Coca-Cola FEMSA and the inclusion of the acquired territories for 12 months of 2004, with most of the remaining increase, approximately 40% due to FEMSA Comercio s rapid pace of store expansion in 2004. Consolidated gross profit increased 14.6% to Ps. 45,611 million in 2004 compared to Ps. 39,796 million in 2003, with over two-thirds of the increase due to Coca-Cola FEMSA and the inclusion of the acquired territories for 12 months of 2004. Gross margin decreased 1.1% percentage points to 47.1% of consolidated total revenues in 2004, compared to 48.2% of consolidated total revenues in 2003. The gross margin decline from 2003 resulted mainly from a gross margin contraction at Coca-Cola FEMSA and the increased contribution of FEMSA Comercio in our consolidated financial results, which has a lower gross margin relative to our other operations.

Income from Operations

Consolidated operating expenses increased 17.4% to Ps. 31,375 million in 2004 compared to Ps. 26,723 million in 2003, with approximately 72% of the increase resulting from the inclusion of the acquired territories

for 12 months of 2004, and most of the remaining amount attributable to an increase in the operating expenses of FEMSA Comercio due to its rapid pace of growth. As a percentage of total revenues, consolidated operating expenses remained stable at 32.4% in 2004 versus 2003.

Consolidated administrative expenses increased 16.4% to Ps. 6,873 million in 2004 compared to Ps. 5,905 million in 2003. Approximately 70% of this increase resulted from an increase of 31.0% to Ps. 2,824 million in the administrative expenses of Coca-Cola FEMSA as a consequence of the inclusion of the acquired territories for 12 months of 2004. The remaining 30% of the increase resulted from an increase in the amortization of ERP expenses and investments in technology and systems in FEMSA Cerveza and FEMSA Comercio. As a percentage of total revenues, administrative expenses remained stable at 7.1% in 2004 compared to 7.2% in 2003.

Consolidated selling expenses increased 17.7% to Ps. 24,502 million in 2004 compared to Ps. 20,818 million in 2003. Approximately 73% of this increase resulted from an increase of 26.8% to Ps. 12,624 million in the selling expenses of Coca-Cola FEMSA due to the inclusion of the acquired territories for 12 months of 2004. Most of the remaining increase was attributable to an increase of 25.6% to Ps. 4,766 million in the selling expenses of FEMSA Comercio due to the aggressive expansion in its number of stores in 2004. As a percentage of total revenues, selling expenses remained stable at 25.3% in 2004 compared to 25.2% in 2003.

We incur various expenses related to the distribution of our products that are accounted for in our selling expenses. During 2004 and 2003, our distribution costs amounted to Ps. 8,692 million and Ps. 7,900 million, respectively. The exclusion of these charges from our cost of sales 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 calculating gross profit or an equivalent measure.

Consolidated income from operations increased 8.9% to Ps. 14,236 million in 2004 compared to Ps. 13,073 million in 2003. Approximately 56% of this increase resulted from Coca-Cola FEMSA and the inclusion of the acquired territories for 12 months of 2004. FEMSA Cerveza and FEMSA Comercio also contributed to this increase, representing approximately 23% and 15%, respectively. Consolidated operating margin in 2004 decreased 1.1 percentage points from 2003 levels to 14.7% of consolidated total revenues in 2004. The decline in operating margin was primarily due to the inclusion of the acquired territories for 12 months of 2004, which have lower operating margins than Coca-Cola FEMSA s original territories, and the increased contribution of FEMSA Comercio, which has a lower operating margin, in our consolidated financial results. FEMSA Cerveza partially offset this effect by achieving an operating margin expansion of 0.4 percentage points to 19.0% of total revenues as compared to 18.6% in 2003, due to solid volume growth resulting in part from slightly weaker pricing in real terms, a reduction in cost of sales and expense containment initiatives.

Some of our subsidiaries pay management fees to FEMSA in consideration for corporate services provided to them. Our subsidiaries payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses, with the exception of the management fee paid by FEMSA Cerveza to Labatt, which was paid until August 2004, when we acquired Labatt s interest in FEMSA Cerveza. This fee amounted to Ps. 88 million for eight months of 2004 compared to Ps. 137 million paid for all of 2003.

Coca-Cola FEMSA

Total Revenues

Coca-Cola FEMSA s total revenues increased 22.3% to Ps. 47,787 million in 2004 compared to Ps. 39,062 million in 2003. Net sales increased 22.7% to Ps. 47,442 million in 2004 compared to Ps. 38,664 million in 2003 and represented 99.3% of total revenues in 2004. Total revenue growth primarily resulted from the inclusion of the acquired territories for 12 months of 2004, compared to their inclusion for eight months of 2003, which more than compensated for the decline in net sales of Coca-Cola FEMSA s Mexican and Colombian territories.

Sales volume reached 1,812 million unit cases in 2004, an increase of 27.9% compared to 1,416 million unit cases in 2003. Most of this increase, approximately 92%, resulted from the inclusion of the acquired territories

for 12 months of 2004. The remaining increase was driven by volume growth in carbonated soft drinks, in particular the *Coca-Cola* brand, which more than compensated for jug water volume declines in Mexico and Colombia and flavored carbonated soft drink volume declines in Colombia and Brazil. Introduction of new multiple serving presentations and product and package segmentation efforts in our distribution channels contributed significantly to these results.

Average price per unit case (calculated by dividing net sales by total sales volume) decreased 4.1% from Ps. 27.30 in 2003 to Ps. 26.18 in 2004. This decline was primarily due to a decrease in the average price of soft drinks in our Mexican territories and lower prices in the acquired territories.

Gross Profit

Cost of sales increased 24.2% to Ps. 24,351 million in 2004 compared to Ps. 19,614 million in 2003, mainly due to the inclusion of the acquired territories for 12 months of 2004, compared to their inclusion for eight months of 2003. As a percentage of total revenues, the cost of sales increased 0.8 percentage points, reaching 51.0% of total revenues, mainly due to a reduction in the average price per unit case and increases in the cost of raw materials. This increase, however, was offset by operating improvements and the appreciation of local currencies in the territories in which Coca-Cola FEMSA operates. Gross profit increased 20.5% to Ps. 23,436 million in 2004 compared to Ps. 19,448 million in 2003, resulting in a gross margin of 49.0%. Mexico accounted for approximately 62% of Coca-Cola FEMSA s gross profit, totaling Ps. 14,604 million in 2004, resulting in a gross margin of 52.8%. Outside of Mexico, Coca-Cola FEMSA s territories have lower gross margins mainly due to higher manufacturing costs and different product mixes.

Income from Operations

Operating expenses increased 27.6% to Ps. 15,448 million in 2004 compared to Ps. 12,108 million in 2003, mainly due to the inclusion of the acquired territories for 12 months of 2004, compared to their inclusion for eight months of 2003. Administrative expenses increased 31.0% to Ps. 2,824 million in 2004 compared to Ps. 2,156 million in 2003, due to the inclusion of the acquired territories for 12 months of 2004. Selling expenses increased 26.8% to Ps. 12,624 million in 2004 compared to Ps. 9,953 million in 2003. At 26.4% of total revenues in 2004, selling expenses increased 0.9 percentage point compared to 25.5% of total revenues in 2003. As a percentage of total revenues, operating expenses increased 1.3 percentage points, reaching 32.3% of total revenues, due to lower absorption of fixed costs as a result of lower average price per unit case. Nonetheless, operating expenses per unit case remained mostly unchanged due to the implementation of cost reduction initiatives throughout all Coca-Cola FEMSA s territories and better commercial and distribution practices.

Income from operations increased 8.8% to Ps. 7,988 million in 2004, principally due to the inclusion of the acquired territories for 12 months of 2004. The operating income margin as a percentage of total revenues decreased 2.1 percentage points in 2004 from 18.8% to 16.7%, mainly due to the inclusion of the acquired territories, which have a lower operating income margin, and the reduction in the average price per unit case due to increased competition in Mexico and to a lesser extent in many of the territories outside of Mexico.

FEMSA Cerveza

Total Revenues

Net sales increased 3.2% to Ps. 25,575 million in 2004 compared to Ps. 24,771 million in 2003. Net sales, which include beer and packaging sales, represented 99.1% of total revenues. Total revenues increased 3.4% to Ps. 25,802 million in 2004 compared to Ps. 24,956 million in 2003. This growth was primarily due to total beer sales volume growth of 4.5%, a 2.3% increase in the export real price per hectoliter and a 2.7% increase in packaging sales, which together more than offset a 1.4% decline in the domestic real price per hectoliter.

Domestic beer sales volume increased 3.8% to 23.442 million hectoliters in 2004 compared to 22.582 million hectoliters in 2003. This increase was primarily due to favorable demand across most of Mexico,

broader availability of FEMSA Cerveza s beers, successful execution at the point-of-sale and revenue management initiatives. The implementation of micro-segmentation strategies in some territories reflected the increased functionality of the ERP system, which by the end of 2004 was operating in approximately 79% of the total domestic beer sales volume sold through FEMSA Cerveza s company-owned distribution centers. Domestic beer sales volume represented 91.3% of total sales volume, similar to the previous year.

Export beer sales volume increased 13.0% to 2.240 million hectoliters in 2004 compared to 1.982 million hectoliters in 2003, mainly due to increased sales volume in the United States through the *Tecate* and *Dos Equis* brands. Export beer sales volume represented 8.7% of total sales volume, similar to the previous year.

Gross Profit

Cost of sales increased 2.8%, slightly below total revenue growth in 2004. Cost of sales increased to Ps. 10,618 million in 2004 compared to Ps. 10,328 million in 2003. Gross profit reached Ps. 15,184 million, a 3.8% increase from 2003 resulting in a gross margin of 58.8% compared to 58.6% in 2003. The increase in gross margin resulted from better purchasing terms for raw materials, the appreciation of the Mexican peso, which reduced the cost of U.S. dollar-denominated raw materials, and operating efficiencies.

Income from Operations

Operating expenses increased 2.9% to Ps. 10,282 million in 2004 compared to Ps. 9,994 million in 2003. Administrative expenses increased 5.9% to Ps. 3,355 million in 2004, from Ps. 3,168 million in 2003, primarily reflecting the amortization of ERP expenses. Selling expenses increased 1.5% to Ps. 6,927 million in 2004 compared to Ps. 6,826 million in 2003. Approximately 31% of this increase was due to increased advertising expenditures for specific programs aimed at reinforcing our brands, approximately 22% was due to an increase in selling expenses in the fourth quarter due to the launch of *Coors Light* and the re-launch of *Tecate* and *Tecate Light* in Mexico and approximately 18% was due to the purchase of promotional materials from our former importer in the United States.

Income from operations increased 5.8% to Ps. 4,902 million in 2004 compared to Ps. 4,634 million in 2003. This reflects an increase in total revenues, combined with expense containment initiatives. Operating margin increased 0.4 percentage points to 19.0% of total revenues in 2004 compared to 18.6% of total revenues in 2003, due to solid volume growth resulting in part from slightly weaker pricing, a reduction in cost of sales and a more efficient use of operating expenses.

FEMSA Comercio

Total Revenues

Total revenues increased 24.8% to Ps. 23,599 million in 2004 compared to Ps. 18,914 million in 2003. The increase in total revenues was mainly a result of the aggressive expansion of the Oxxo convenience store chain, which added 668 net new Oxxo stores during 2004. As of December 31, 2004, FEMSA Comercio had 3,466 Oxxo stores nationwide, an increase of 23.9% from 2003, representing the fifth consecutive year of over 20% annual growth in the number of total Oxxo stores.

Same-store sales of Oxxo increased an average of 8.9% in 2004, reflecting an increase in the average ticket of 3.8% and an increase in store traffic of 4.9%. This increase reflects rapid store expansion and stronger category management practices, such as tailored product offerings within the stores.

Gross Profit

Cost of sales increased 24.3% to Ps. 17,334 million in 2004, slightly below total revenue growth, compared to Ps. 13,942 million in 2003. As a result, gross profit reached Ps. 6,265 million, a 26.0% increase from 2003 resulting in a gross margin of 26.5% in 2004 compared to 26.3% in 2003. The 0.2 percentage points increase in gross margin resulted from successful category management.

Income from Operations

Operating expenses increased 26.4% to Ps. 5,324 million in 2004 compared to Ps. 4,211 million in 2003. Administrative expenses increased 34.4% to Ps. 558 million in 2004 compared to Ps. 415 million in 2003. Approximately 78% of this increase was due to expenses that can no longer be capitalized and amortization of new technology and systems investments, with the remaining amount resulting from increased expenses in personnel training and development and the opening of three new sales regions in Morelia, Juarez and La Paz. Selling expenses increased 25.6% to Ps. 4,766 million in 2004 compared to Ps. 3,797 million in 2003. At 20.1% of total revenues, selling expenses remained in-line with 2003 levels.

Income from operations increased 23.7% to Ps. 941 million in 2004 compared to Ps. 761 million in 2003. This increase was in line with revenue growth, and contributed to a stable operating margin of 4.0% for 2004, which was in line with 2003.

FEMSA Consolidated Net Income

Integral Result of Financing

Net interest expense reached Ps. 3,322 million in 2004 compared to Ps. 1,909 million in 2003, resulting primarily from a full year of interest expenses related to debt issued in May 2003 by Coca-Cola FEMSA in order to finance the Panamco acquisition and new debt issued in August 2004 in order to repurchase the 30% interest in FEMSA Cerveza from affiliates of InBev.

Foreign exchange loss amounted to Ps. 14 million in 2004 compared to a loss of Ps. 2,752 million in 2003. This significant decrease compared to our loss in 2003 resulted from the positive effect on the U.S. dollar-denominated debt incurred for the acquisition of the 30% interest in FEMSA Cerveza of the strength of the Mexican peso during 2004 relative to the U.S. dollar.

Monetary position gain amounted to Ps. 2,004 million in 2004 compared to a gain of Ps. 1,038 million in 2003. This increase in the amount of our gain in 2004 compared to 2003 reflects the effect of higher inflation on our higher liabilities recorded in 2004.

Taxes

Tax recognized in 2004 amounted to Ps. 2,533 million, which includes income tax, tax on assets and employee profit sharing, compared to Ps. 3,785 million in 2003. The 33.1% decline from the 2003 amount was primarily due to a one-time deferred income tax benefit recognized in the fourth quarter of 2004 from a reduction in Mexican corporate tax rates in future periods, and a non-recurring tax gain of Ps. 1,355 million at Coca-Cola FEMSA resulting from a favorable final ruling from a Mexican federal court that allowed Coca-Cola FEMSA to deduct losses arising from a sale of shares during 2002. Consequently, the effective tax rate in 2004 was 21% compared to 43% in 2003.

Net Income

Net income increased 88.6% to Ps. 9,558 million in 2004 compared to Ps. 5,067 million in 2003. This increase was due to growth of 8.9% in consolidated income from operations, a reduction in foreign exchange losses due to the positive effect of a stronger Mexican peso with respect to our U.S. dollar-denominated debt, a one-time deferred income tax benefit during the fourth quarter of 2004 from the reduction in Mexican corporate tax rates and a non-recurring tax gain of Ps. 1,355 million at Coca-Cola FEMSA.

Net majority income amounted to Ps. 6,027 million in 2004, an increase of 76.8% from 2003. Net majority income per FEMSA Unit reached Ps. 5.05 in 2004. Net majority income per FEMSA ADS, using an exchange rate of Ps. 10.6275 per U.S. dollar, was US$ 4.75 in 2004.

Liquidity and Capital Resources

Liquidity

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2005, 82.7% of our outstanding consolidated indebtedness was at the level of our sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA and, prior to August 2004, in the capital structure of FEMSA Cerveza. Currently, we expect to continue to finance our operations and capital requirements primarily at the level of our sub-holding 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. As a holding company, we depend on dividends and other distributions from our subsidiaries to service our indebtedness.

We continuously evaluate opportunities to pursue acquisitions or engage in joint ventures or other transactions. We 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 sub-holding 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 Coca-Cola FEMSA, FEMSA Cerveza and FEMSA Comercio are on a cash or short-term credit basis, and FEMSA Comercio s Oxxo stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. Our principal use of cash has generally been for capital expenditure programs, debt repayment and dividend payments. The following is a summary of the principal uses of cash for the three years ended December 31, 2005:

Principal Uses of Cash

	For the Year Ended December 31,		
	2005	2004	2003
	(in millions of constant Mexican pesos)		
Net resources generated by operations	Ps. 13,728	Ps. 15,837	Ps. 9,787
Capital expenditures[1]	(6,505)	(7,147)	(7,456)
Bank loans and notes	(11,595)	7,055	17,196
Dividends declared and paid	(1,022)	(871)	(1,164)

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

Our sub-holding 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 sub-holding companies may affect the sub-holding 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 its acquisition of Panamco in May 2003 and our acquisition of the 30% interest in FEMSA Cerveza owned by affiliates of InBev in August 2004, capital expenditures and other capital requirements that could not be financed with cash from operations by incurring long-term indebtedness and through the issuance of equity.

Our consolidated total indebtedness was Ps. 34,615 million as of December 31, 2005, as compared to Ps. 47,353 million as of December 31, 2004. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 4,883 million and Ps. 29,732 million, respectively, as of December 31, 2005, as compared to Ps. 9,851 million and Ps. 37,502 million, respectively, as of December 31, 2004. Cash and cash equivalents were Ps. 8,140 million as of December 31, 2005, as compared to Ps. 7,111 million as of December 31, 2004. The

significant decrease in total indebtedness was primarily at FEMSA and was attributable to the payment in June 2005 of the bridge loans incurred in August 2004 in order to finance the acquisition of the 30% minority interest in FEMSA Cerveza.

We believe that our sources of liquidity as of December 31, 2005 were adequate for the conduct of our sub-holding companies businesses and that we will have sufficient funds available to meet our expenditure demands and financing needs in 2006.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2005:

	Maturity				
	Less than 1 year	**1 - 3 years**	**3 - 5 years**	**In excess of 5 years**	**Total**
	(in millions of Mexican pesos)				
Long-Term Debt					
Mexican pesos[1]	Ps. 1,643	Ps. 9,012	Ps. 8,288	Ps. 7,963	Ps. 26,906
U.S. dollars[1]	2,304	268	3,363	551	6,486
Colombian pesos	211	161			372
Guatemalan quetzals	24				24
Capital Leasing					
U.S. dollars	39	89	36		164
Interest payments[2]					
Mexican pesos	2,386	4,296	2,464	1,756	10,902
U.S. dollars	556	701	429	174	1,860
Colombian pesos	32	15			47
Guatemalan quetzals	2				2
Interest rate swaps[3]					
Mexican pesos	62	138	176	118	494
U.S. dollars			1		1
Cross currency and interest rate swap					
U.S. dollars to Mexican pesos[4]	191	474	308	43	1,016
Mexican pesos to Colombian pesos[5]	(16)	(27)			(43)
Mexican pesos to Argentine pesos[6]					
Forward contracts					
Agreements to purchase Mexican pesos[7]	(10)				(10)
Operating leases					
Mexican pesos	850	1,656	1,621	4,679	8,806
U.S. dollars	259	284	59		602
Guatemalan quetzals	2				2
Nicaraguan cordobas	1				1
Costa Rican colons	3				3
Brazilian reals	47	103	194		344
Argentine pesos	4				4
Commodity price contracts					
U.S. dollars	866				866
Expected benefits to be paid for pension plans, seniority premiums, post-retirement medical benefits and severance indemnities	382	717	726	1,608	3,433
Other long-term liabilities[8]				3,513	3,513

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(1) Includes the effect of a cross currency swap, pursuant to which US$ 140 million of U.S. dollar-denominated long-term debt is swapped for Mexican pesos, in the amount of Ps. 1,500 million.

(2) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2005. The debt and applicable interest rates in effect are shown in note 19 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 10.7109 per U.S. dollar, the exchange rate quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2005.

(3) Reflects 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, 2005. Liabilities denominated in U.S. dollars were translated to Mexican pesos as described in footnote (2) above.

(4) Includes (1) the cross currency swap from U.S. dollars to Mexican pesos with respect to US$140 million of U.S. dollar-denominated debt using the contracted exchange rate of Ps. 11.01 per U.S. dollar, (2) the interest rate swap from a variable U.S. dollar interest rate to a fixed Mexican peso interest rate, which have averages of 4.7% and 11.1%, respectively, (3) a currency swap from U.S. dollars to Mexican pesos with respect to US$125 million of U.S. dollars using the contracted exchange rate of Ps. 11.04 per U.S. dollar and (4) the interest rate swap from a variable U.S. dollar interest rate to a fixed Mexican peso interest rate, which have averages of 4.0% and 10.6%, respectively.

(5) Includes cross-currency swaps from Mexican pesos to Colombian pesos with respect to Ps. 1,232 million of Mexican pesos which were swapped to Colombian pesos in the amount of 262,926 million Colombian pesos with a 3 year maturity and interest rate swaps from a variable Mexican peso rate to a fixed Colombian peso rate, which as of December 31, 2005 have weighted average rates of 8.6% and 8.5%, respectively. These hedges are not considered hedges for purposes of our consolidated financial statements in accordance with Mexican GAAP, as described in note 19 thereto.

(6) Includes cross-currency swaps from Mexican pesos to Argentine pesos with respect to Ps. 55 million of Mexican pesos which were swapped to Argentine pesos in the amount of 15 million Argentine pesos with a one year maturity and interest rate swaps from a variable Mexican peso rate to a fixed Argentine peso rate, which as of December 31, 2005 have weighted average rates of 8.2% and 7.1%, respectively. These hedges are not considered hedges for purposes of our consolidated financial statements in accordance with Mexican GAAP, as described in note 19.

(7) Forward contract with respect to US$70 million with a settlement date of May 3, 2006, paying U.S. dollar amounts and receiving Mexican peso amounts, held as of December 31, 2005.

(8) Other long-term liabilities includes principally contingencies and derivative financial instruments. Other long-term liabilities additionally reflects those 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.

As of December 31, 2005, Ps. 4,883 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2005, our consolidated average cost of borrowing, after giving effect to the cross currency and interest rate swaps, was approximately 9.3%, compared to 8.5% in 2004. The increase in our average cost of borrowing mainly reflects an increase in the London interbank offered rate, or LIBOR, the *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate), or TIIE, and the *Certificados de la Tesorería* (Treasury Certificates), or CETES, rate. As of December 31, 2005, after giving effect to cross currency swaps, 19.2% of our total consolidated indebtedness was denominated and payable in U.S. dollars, 77.9% was in Mexican pesos, 1.1% was in Colombian pesos, 1.1% was in Venezuelan bolivars, 0.6% was in Argentine pesos and the remaining 0.1% was in Guatemalan quetzals. We did not have any long-term Purchase Obligations as of December 31, 2005.

Overview of Debt Instruments

The following table shows the allocations of total debt of our company as of December 31, 2005:

	Total Debt Profile of the Company				
	FEMSA and Others[1]	Coca-Cola FEMSA	FEMSA Cerveza	FEMSA Comercio	Total Debt
	(in millions of constant Mexican pesos)				
Short-term Debt					
U.S. dollars:					
Bank loans	Ps.	Ps. 5	Ps.	Ps.	Ps. 5
Mexican pesos:					
Bank loans			45		45
Venezuelan bolivars:					
Bank loans		389			389
Argentine pesos:					
Bank loans		224			224
Long-term Debt[2]					
U.S. dollars:					
Bank loans[3]	58	481	572	16	1,127
Yankee bond		5,359			5,359
Leasing	14	16	134		164
Syndicated loan					
Mexican pesos:					
Bank loans[3]	3,474	4,650	7,701		15,825
Notes	2,500	7,156			9,656
UDIs (Mexican investment units)		1,425			1,425
Colombian pesos:					
Notes		372			372
Guatemalan quetzals:					
Bank Loans		24			24
Total	**Ps. 6,046**	**Ps. 20,101**	**Ps. 8,452**	**Ps. 16**	**Ps. 34,615**
Average Cost[4]					
U.S. dollars	5.4%	7.7%	4.6%	4.6%	7.3%
Mexican pesos	9.6%	9.3%	10.2%		9.7%
Colombian pesos		8.7%			8.7%
Venezuelan bolivars		12.1%			12.1%
Argentine pesos		9.4%			9.4%
Guatemalan quetzals		6.5%			6.5%
TOTAL	9.5%	8.9%	9.7%	4.6%	9.3%

(1) Ps. 2,500 million of *certificados bursátiles* of FEMSA are guaranteed by FEMSA Cerveza and a Ps. 1,712 million bank loan of FEMSA is guaranteed by FEMSA Comercio.
(2) Includes the Ps. 4,220 million current portion of long-term debt.
(3) Includes the effect of cross currency swaps in the amount of Ps. 1,500 million from U.S. dollars to Mexican pesos.
(4) Includes the effect of cross currency and interest rate swaps.

Restrictions Imposed by Debt Instruments

Generally, the covenants contained in the credit agreements and other instruments governing indebtedness entered into by us or our sub-holding companies include limitations on the incurrence of any additional debt

based on debt service coverage ratios or leverage tests. These credit agreements also generally include restrictive covenants applicable to us, our sub-holding companies and their subsidiaries. There are no cross-guarantees between sub-holding companies, and we have not provided guarantees with respect to any of the debt obligations of our sub-holding companies. FEMSA Cerveza has guaranteed FEMSA s obligation under its *certificados bursátiles*. Certain of our 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.

We are in compliance with all of our restrictive covenants as of December 31, 2005. A significant and prolonged deterioration in our consolidated results of operations could cause us to cease to be in compliance under certain indebtedness in the future. We can provide no assurances that we will be able to incur indebtedness or to refinance existing indebtedness on similar terms in the future.

Summary of Debt

The following is a summary of our indebtedness by sub-holding company and for FEMSA as of December 31, 2005:

Coca-Cola FEMSA. Coca-Cola FEMSA s total indebtedness was Ps. 20,101 million as of December 31, 2005, as compared to Ps. 25,836 million as of December 31, 2004. Short-term debt and long-term debt were Ps. 4,428 million and Ps. 15,673 million, respectively, as of December 31, 2005, as compared to Ps. 3,389 million and Ps. 22,447 million, respectively, as of December 31, 2004. Cash and cash equivalents were Ps. 1,958 million as of December 31, 2005, as compared to Ps. 3,782 million as of December 31, 2004. Approximately Ps. 71 million of cash is considered restricted cash because it has been deposited to settle accounts payable in Venezuela. As of December 31, 2005, Coca-Cola FEMSA had a working capital deficit (defined as the excess of current liabilities over current assets) of Ps. 4,426 million, reflecting accounts payable to suppliers of Ps. 4,616 million and short-term debt balance of Ps. 4,428 million principally relating to the maturity of long-term debt in 2006. As part of Coca-Cola FEMSA s financing policy, it expects to continue to finance its liquidity needs from cash from operations. Nonetheless, in the future it may be required to finance its working capital and capital expenditure needs with short-term debt or other borrowings. As of December 31, 2005, Coca-Cola FEMSA had uncommitted approved lines of credit totaling approximately US$ 865 million (Ps. 9,265 million), which Coca-Cola FEMSA believes are currently available. In December 2003, Coca-Cola FEMSA finalized a U.S. dollar-denominated loan agreement with The Coca-Cola Company that permits it to borrow, upon the satisfaction of certain conditions, up to Ps. 2,657 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. Nonetheless, 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.

Coca-Cola FEMSA s average cost of debt, after giving effect to cross currency and interest rate swaps, was 7.7% in U.S. dollars, 9.3% in Mexican pesos, 8.7% in Colombian pesos, 12.1% in Venezuelan bolivars, 9.4% in Argentine pesos and 6.5% in Guatemalan quetzals as of December 31, 2005 compared to 7.7% in U.S. dollars, 9.4% in Mexican pesos, 10.1% in Colombian pesos, 11.0% in Venezuelan bolivars and 5.4% in Argentine pesos as of December 31, 2004.

FEMSA Cerveza. As of December 31, 2005, FEMSA Cerveza s total outstanding debt was Ps. 8,452 million, which included Ps. 45 million of outstanding short-term trade and working capital loans. As of December 31, 2005, FEMSA Cerveza had approximately Ps. 8,407 million of long-term debt

outstanding that included a Ps. 134 million capital leasing obligation and Ps. 8,273 million consisting of bilateral bank loans and equipment financing loans. As of December 31, 2005, FEMSA Cerveza had U.S. dollar-denominated approved, uncommitted lines of credit totaling approximately Ps. 2,515 million, all of which was available as of such date. FEMSA Cerveza s average cost of debt, after giving effect to interest rate swaps, as of December 31, 2005 was 10.2% in Mexican pesos and 4.6% in U.S. dollars. FEMSA Cerveza is also the guarantor of debt of FEMSA in the amount of Ps. 2,500 million as of December 31, 2005.

FEMSA Comercio. As of December 31, 2005, FEMSA Comercio s total outstanding debt was Ps. 16 million, which consisted of a Ps. 16 million U.S. dollar-denominated long-term bank loan that matures in August 2009. As of December 31, 2005, FEMSA Comercio had U.S. dollar and Mexican peso-denominated approved, uncommitted lines of credit totaling Ps. 1,446 million. FEMSA Comercio s average cost of debt was 4.6% as of December 31, 2005 compared to 2.7% as of December 31, 2004.

FEMSA and other business segment. As of December 31, 2005, FEMSA and the companies comprising our other business segment had total outstanding debt of Ps. 6,046 million, all of which was long term. This consisted of Ps. 2,500 million of *certificados bursátiles*, that are guaranteed by FEMSA Cerveza, and a Ps. 1,712 million bank loan guaranteed by FEMSA Comercio, and that mature in July 2009 and in August 2010, respectively. Additionally, as of December 31, 2005, FEMSA had Ps. 1,762 million in bank loan debt that it incurred in connection with the 30% equity acquisition of FEMSA Cerveza. The debt of the other business segment consisted of Ps. 72 million in bank loans denominated in U.S. dollars, of which Ps. 14 million matures in July 2008 and Ps. 58 million matures in September 2009. As of December 31, 2005, FEMSA and our other business segment had U.S. dollar and Mexican peso-denominated approved, uncommitted lines of credit totaling approximately Ps. 2,688 million. They had an average cost of debt, after giving effect to interest rate swaps as of December 31, 2005 of 9.6% in Mexican pesos and 5.4% in U.S. dollars.

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. See Item 8. Financial Information Legal Proceedings. Most of these loss contingencies have been recorded as reserves against intangibles recorded as a result of the Panamco acquisition. Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

The following table presents the nature and amount of the loss contingencies as of December 31, 2005:

	Loss Contingencies As of December 31, 2005		
	Short-Term	**Long-Term**	**Total**
	(in millions of constant Mexican pesos)		
Tax	Ps. 4	Ps. 1,364	Ps. 1,368
Legal		168	168
Labor	63	219	282
Total	Ps. 67	Ps. 1,751	Ps. 1,818

We have other loss contingencies for which we have not recorded a reserve. These contingencies or our assessment of them may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies.

Capital Expenditures

For the past five years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Capital expenditures reached Ps. 6,505 million in 2005 compared to Ps. 7,147 million in 2004, a decrease of 9.9%. This was primarily due to a reduction in capital expenditures at

FEMSA Cerveza, and to a lesser extent at FEMSA Comercio. The principal components of our capital expenditures have been for equipment, market-related investments and production capacity and distribution network expansion at both Coca-Cola FEMSA and FEMSA Cerveza and the construction of new Oxxo stores at FEMSA Comercio. See Item 4. Information on the Company Capital Expenditures and Divestitures.

Expected Capital Expenditures for 2006

Our capital expenditure budget for 2006 is expected to be approximately Ps. 9,050 million. The following discussion is based on each of our sub-holding companies internal 2006 budgets. The capital expenditure plan for 2006 is subject to change based on market and other conditions and the subsidiaries results of operations and financial resources.

Coca-Cola FEMSA s capital expenditures in 2006 are expected to be approximately Ps. 2,656 million. Coca-Cola FEMSA s capital expenditures in 2006 are primarily intended for:

- investments in returnable bottles and cases;
- market investments (primarily for the placement of refrigeration equipment); and
- improvements in our manufacturing facilities and throughout our logistics network.

Coca-Cola FEMSA estimates that a majority of projected capital expenditures for 2006 will be spent in Mexican territories.

FEMSA Cerveza s capital expenditure budget for 2006 is expected to be approximately Ps. 4,539 million. 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 enterprise resource planning 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, the acquisition of third party distributors, the development of long-term sponsorships and the placement of refrigeration equipment nationwide.

FEMSA Comercio s capital expenditure budget in 2006 is expected to total approximately Ps. 1,574 million, and will be allocated to the opening of new Oxxo stores and to a lesser extent to the refurbishing of existing Oxxo stores. In addition, investments are planned in FEMSA Comercio s information technology, ERP software systems and transportation equipment.

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

The following table provides a summary of the fair value of derivative instruments as of December 31, 2005. The fair market value is obtained mainly from external sources, which are our counterparties to the contracts.

	Fair Value At December 31, 2005				
	Maturity less than 1 year	Maturity 1 - 3 years	Maturity 3 - 5 years	Maturity in excess of 5 years	Total fair value
	(in millions of constant Mexican pesos)				
Prices quoted by external sources	(141)	(76)	(433)	(160)	(810)

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,			
	2005		2004	
	(in millions of constant Mexican pesos)			
Coca-Cola FEMSA	Ps.	180	Ps.	264
FEMSA Cerveza		250		272
FEMSA and other		293		304
Total	Ps.	723	Ps.	840

Fixed assets recorded at their estimated realizable value are considered monetary assets on which a loss on monetary position is computed and recorded in 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:

- consolidation of our subsidiary Coca-Cola FEMSA, which is a consolidated subsidiary for purposes of Mexican GAAP but presented under the equity method for U.S. GAAP purposes;
- FEMSA s minority interest acquisition;
- deferred income taxes and deferred employee profit sharing;
- restatement of imported machinery and equipment; and
- capitalization of integral result of financing.

For a more detailed description of the differences between Mexican GAAP and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income, changes in stockholders equity and cash flows for the same periods presented for Mexican GAAP purposes and a reconciliation of net income and stockholders equity under Mexican GAAP to net income and stockholders equity under U.S. GAAP, see notes 27 and 28 to our audited consolidated financial statements.

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

Under U.S. GAAP, we had net income of Ps. 5,333 million and Ps. 6,809 million in 2005 and 2004, respectively. Under Mexican GAAP, we had net majority income of Ps. 5,549 million and Ps. 6,027 million in 2005 and 2004, respectively. In 2005, 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 severance indemnities.

Stockholders equity under U.S. GAAP as of December 31, 2005 and 2004 was Ps. 63,491 million and Ps. 51,719 million, respectively. Under Mexican GAAP, majority stockholders equity as of December 31, 2005 and 2004 was Ps. 67,192 million and Ps. 53,878 million, respectively. 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, the capitalization of the integral result of financing and the effect of deferred income tax, partially offset by the effects of deferred employee profit sharing and start-up expenses.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

Management of our business is vested in the board of directors. Our bylaws provide that the board of directors will consist of at least 16 directors and designated alternate directors elected by our shareholders at the annual ordinary general shareholders meeting. Directors are elected for a term of one year, although they remain in office until successors are appointed and replace them. Alternate directors are authorized to serve on the board of directors in place of directors who are unable to attend meetings and may participate in the activities of the board of directors. Nineteen members form our board of directors. Our bylaws provide that the holders of the Series B Shares elect at least 11 directors and that the holders of the Series D Shares elect five directors. The shareholders may designate alternate directors to cover the absence of a specific director. Upon the issuance of Series L Shares or upon the conversion of the Series D-L Shares, the holders of the Series L Shares will be entitled to elect two directors. See Item 10. Additional Information Bylaws.

The names and positions of the current members of the board of directors, their dates of birth and information on their principal business activities outside our company are outlined in the following table. In each case, the date presented as First elected corresponds to the earliest appointment to the board of directors of either FEMSA, Emprex or FEMSA s corporate predecessor. See Item 4. Information on the Company Corporate Background.

Series B Directors

Eugenio Garza Lagüera	Born:	December 1923
Director and Honorary	First elected:	1960
Life Chairman	Term expires:	2007
	Other directorships:	Honorary Life Chairman of Coca-Cola FEMSA, Instituto Tecnológico de Estudios Superiores de Monterrey (ITESM) and BBVA Bancomer
	Business experience:	Joined FEMSA in 1946 in the research department of Cuauhtémoc
	Education:	Holds degrees in chemical engineering from the University of Texas and in business administration from ITESM
	Alternate director:	Paulina Garza de Marroquín[1][2]
José Antonio Fernández Carbajal[3]	Born:	February 1954
Director and Chairman of the Board	First elected (Chairman):	2001
	First elected (Director):	1984
	Term expires:	2007
	Principal occupation:	Chief Executive Officer of FEMSA
	Other directorships:	Chairman of the board of Coca-Cola FEMSA, Vice-Chairman of the board of ITESM and member of the boards of BBVA Bancomer, Grupo Industrial Saltillo, S.A. de C.V., Industrias Peñoles, S.A. de C.V. and Grupo Industrial Bimbo, S.A. de C.V. (Grupo Bimbo)
	Business experience:	Joined FEMSA s strategic planning department in 1987, held managerial positions at FEMSA Cerveza s commercial division and Oxxo and appointed our Chief Executive Officer in 1995

	Education:	Holds a degree in industrial engineering and an MBA from ITESM
	Alternate director:	Federico Reyes García
Eva Garza de Fernández[1][4]	Born:	April 1958
Director	First elected:	2005
	Term expires:	2007
	Principal occupation:	Private investor
	Business experience:	Former President / Chief Executive Officer of Alternativas Pacíficas, A.C., (a non-profit organization)
	Education:	Holds a business administration degree from ITESM
	Alternate director:	Bárbara Garza de Braniff[1] [2]
José Calderón Rojas	Born:	July 1954
Director	First elected:	2005
	Term expires:	2007
	Principal occupation:	Chairman of the board of Directors and Executive Vice-President of Servicios Administrativos de Monterrey, S.A. de C.V. and Franca Industrias, S.A. de C.V.
	Other directorships:	Member of the board of BBVA Bancomer
	Education:	Holds a law degree from the Universidad Autónoma de Nuevo León (UANL) and completed specialization studies in tax at UANL
	Alternate director:	Francisco José Calderón Rojas[5]
Consuelo Garza de Garza[6]	Born:	October 1930
Director	First elected:	1995
	Term expires:	2007
	Business experience:	Founder and former President of Asociación Nacional Pro-Superación Personal, (a non-profit organization)
	Alternate director:	Alfonso Garza Garza[7]
Max Michel Suberville	Born:	July 1932
Director	First elected:	1985
	Term expires:	2007
	Principal occupation:	Honorary Chairman of the Board of El Puerto de Liverpool, S.A. de C.V.
	Other directorships:	Member of the boards of Grupo Lamosa, S.A. de C.V., Industrias Peñoles, S.A. de C.V., and Grupo Nacional Provincial, S.A.
	Education:	Holds a graduate degree from The Massachusetts Institute of Technology and completed post-graduate studies at Harvard University
	Alternate director:	Max Michel González[8]
Alberto Bailleres	Born:	August 1931
Director	First elected:	1995
	Term expires:	2007
	Principal occupation:	Executive President of Industrias Peñoles, S.A. de C.V., Grupo Nacional Provincial, S.A. and Grupo BAL, S.A. de C.V.

	Other directorships:	Chairman of the Board of Industrias Peñoles, S.A. de C.V., Grupo Nacional Provincial, S.A. and Grupo Palacio de Hierro, S.A. de C.V., member of the boards of BBVA Bancomer, Grupo Televisa, Grupo Desc and Valores Mexicanos Casa de Bolsa, S.A. de C.V.
	Education:	Holds an economics degree from Instituto Tecnológico Autónomo de México
	Alternate director:	Arturo Fernández
Javier Fernández Carbajal[9]	Born:	April 1955
Director	First elected:	2005
	Term expires:	2007
	Principal occupation:	Private business consultant
	Education:	Holds degrees in mechanical and electrical engineering from ITESM and an MBA from Harvard Business School
	Alternate director:	Javier Astaburuaga Sanjines
Ricardo Guajardo Touché	Born:	May 1948
Director	First elected:	1988
	Term expires:	2007
	Principal occupation:	Former Chairman of the Board of BBVA Bancomer
	Other directorships:	Member of the board of El Puerto de Liverpool, S.A. de C.V., Grupo Industrial Alfa, S.A. de C.V., BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A. de C.V. and ITESM
	Business experience:	Has held senior executive positions in our company, Grupo AXA, S.A. de C.V. and Valores de Monterrey, S.A. de C.V.
	Education:	Holds degrees in electrical engineering from ITESM and the University of Wisconsin and a masters degree from the University of California at Berkeley
	Alternate director:	Othón Páez Garza[10]
Alfredo Livas Cantú	Born:	July 1951
Director	First elected:	1995
	Term expires:	2007
	Principal occupation:	President of Praxis Financiera, S.C.
	Other directorships:	Member of the boards of Grupo Jomar, S.A. de C.V. and British American Tobacco (Mexican board)
	Business experience:	Joined FEMSA in 1978 and held several positions in the areas of financial planning and treasury and served as Chief Financial Officer from 1989 to 1999
	Education:	Holds an economics degree from UANL and an MBA and masters degree in economics from the University of Texas
	Alternate Director:	Sergio Deschamps Ebergenyi
Roberto Servitje	Born:	January 1928
Director	First elected:	1995
	Term expires:	2007
	Principal occupation:	Chairman of the Board of Grupo Bimbo, S.A. de C.V.

	Other directorships:	Member of the board of DaimlerChrysler de México, S.A.
	Business experience:	Founding member and active Chairman of Grupo Bimbo
	Education:	Holds a PMD degree from Harvard University
	Alternate director	Juan Guichard Michel[8]
Carlos Salguero *Director*	Born:	October 1929
	First elected:	1995
	Term expires:	2007
	Business experience:	Former Executive Vice President of Phillip Morris International
	Other directorships:	Former member of the boards of Tabacalera Mexicana, S.A. de C.V., Tabacalera Costarricense, S.A., Tabacalera Centroamericana, S.A. and other Latin American companies
	Education:	Holds a business degree from the Columbian Faculty of Economic Sciences, postgraduate studies in economics and management from Albany Business College and University College (Syracuse) and received an Honor for Civil Merit by H.M. the King of Spain in 1995
	Alternate director:	Eduardo Padilla Silva
José Manuel Canal Hernando *Director*	Born:	February 1940
	First elected:	2003
	Term expires:	2007
	Principal occupation:	Private consultant
	Other directorships:	Member of the board of Coca-Cola FEMSA and member of its audit committee; board member of ALSEA, S.A. de C.V. and chairman of the audit committee of Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT)
	Business experience:	Former managing partner at Ruiz, Urquiza y Cía, S.C. from 1981 to 1999, acted as our statutory examiner from 1984 to 2002, presided in the Committee of Surveillance of the Mexican Institute of Finance Executives, has participated in several commissions at the Mexican Institute of Public Accountants and has extensive experience in financial auditing for holding companies, banks and financial brokers
	Education:	Holds a CPA degree from the Universidad Nacional Autónoma de México
	Alternate director:	Ricardo Saldívar Escajadillo
Mariana Garza Gonda de Treviño[1][2] *Director*	Born:	April 1970
	First elected:	2005
	Term expires:	2007
	Principal occupation:	Private investor
	Other directorships:	Alternate director of Coca-Cola FEMSA, board member of Alternativas Pacíficas, A.C. (a non-profit organization)

	Education:	Holds a degree in industrial engineering from ITESM and a masters degree in international management from the American Graduate School of International Management (Thunderbird) at Glendale, Arizona
	Alternate director:	Carlos Salazar Lomelín

Series D Directors

Alexis E. Rovzar de la Torre *Director*	Born:	July 1951
	First elected:	1989
	Term expires:	2007
	Principal occupation:	Executive Partner at White & Case, S.C. law firm
	Other directorships:	Member of the boards of Coca-Cola FEMSA (chairman of its audit committee), Grupo Bimbo, Deutsche Bank (Mexico), Grupo ACIR, S.A. de C.V. and COMEX, S.A. de C.V.
	Business experience:	Expert in private and public mergers and acquisitions as well as other aspects of financial law and has been advisor to many companies on international business and joint venture transactions
	Education:	Holds a law degree from the Universidad Nacional Autónoma de México
	Alternate director:	Francisco Zambrano Rodríguez
Armando Garza Sada *Director*	Born:	June 1957
	First elected:	2006
	Term expires:	2007
	Principal occupation:	Executive Vice-President of Corporate Development of Grupo Industrial Alfa, S.A. de C.V.
	Other directorships:	Member of the Board of Directors of Grupo Industrial Alfa, S.A. de C.V., Grupo Gigante, S.A. de C.V. and Grupo MVS, S.A. de C.V.
	Business experience:	He has a long professional career in Grupo Industrial Alfa, S.A. de C.V. de C.V., former Chief Executive Officer at Sigma Alimentos, S.A. de C.V.
	Education:	Holds a degree in industrial engineering from ITESM and a MBA from Stanford University
	Alternate director:	Alfonso González Migoya
Helmut Paul *Director*	Born:	March 1940
	First elected:	1988
	Term expires:	2007
	Principal occupation:	Owner of H. Paul & Company LLC (a corporate finance advisory firm)
	Other directorships:	Member of the board of Zurich Emerging Markets Solutions
	Business experience:	Has held several managing positions in the International Finance Corporation, mainly responsible for Latin American and Caribbean investments
	Education:	Holds an MBA from the University of Hamburg
	Alternate director:	Antonio Elosúa Muguerza

Lorenzo H. Zambrano	Born:	March 1944
Director	First elected:	1995
	Term expires:	2007
	Principal occupation:	Chairman and Chief Executive Officer of Cemex, S.A. de C.V.
	Other directorships:	Member of the boards of IBM Corporation, Grupo Industrial Alfa, S.A. de C.V. (Human Resources Committee), Vitro, S.A. de C.V. (Chairman of the Compensation Committee), Televisa, S.A. de C.V. and Grupo Financiero Banamex, S.A. de C.V., and member of Citigroup s International Advisory Board.
	Education:	Holds a degree in mechanical engineering and administration from ITESM and an MBA from Stanford University
	Alternate director:	Francisco Garza Zambrano
Robert E. Denham	Born:	August 1945
Director	First elected:	2001
	Term expires:	2007
	Principal occupation:	Partner of Munger, Tolles & Olson LLP law firm
	Other directorships:	Member of the Boards of Wesco Financial Corporation, US Trust Company, Lucent Technologies, Inc. and Chevron Corp.
	Business experience:	Former Chief Executive Officer of Salomon Inc., representative to the APEC Business Advisory Council and member of the OECD Business Sector Advisory Group on Corporate Governance
	Education:	*Magna cum laude* graduate from the University of Texas, holds a JD from Harvard Law School and a masters degree in Government from Harvard University
	Alternate director:	José González Ornelas

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(1) Daughter of Eugenio Garza Lagüera.
(2) Sister-in-law of José Antonio Fernández Carbajal.
(3) Son-in-law of Eugenio Garza Lagüera.
(4) Wife of José Antonio Fernández Carbajal.
(5) Brother of José Calderón Rojas.
(6) Sister of Eugenio Garza Lagüera.
(7) Son of Consuelo Garza de Garza.
(8) Son of Max Michel Suberville.
(9) Brother of José Antonio Fernández Carbajal.
(10) Nephew of Max Michel Suberville.

Senior Management

The names and positions of our current senior management and that of our principal sub-holding companies, their dates of birth and information on their principal business activities both within and outside of FEMSA are as follows:

FEMSA

José Antonio Fernández Carbajal	See Directors.	1987
Chief Executive Officer	Joined FEMSA:	1994
	Appointed to current position:	
Javier Astaburuaga Sanjines	Born:	July 1959
Executive Vice-President of Finance and Strategic Development	Joined FEMSA:	1982
	Appointed to current position:	2006
	Business experience	
	within FEMSA:	Joined FEMSA as a financial information analyst and later acquired experience in corporate development, administration and finance, held various senior positions at FEMSA Cerveza between 1993 and 2001, including Chief Financial Officer and for two years was FEMSA Cerveza s Director of Sales for the north region of Mexico until 2003 in which he was appointed FEMSA Cerveza s Co-Chief Executive Officer-Operations.
	Education:	Holds a CPA degree from ITESM.
Federico Reyes García	Born:	September 1945
Executive Vice-President of Corporate Development	Joined FEMSA:	1999
	Appointed to current position:	2006
	Business experience	
	within FEMSA:	Director of Corporate Development, 1992 and Chief Financial Officer from 1999 until 2006.
	Other business experience:	Served as Director of Corporate Staff at Grupo AXA and has extensive experience in the insurance sector, working eight years in Valores de Monterrey, S.A. de C.V., six of them as Chief Executive Officer
	Education:	Holds a degree in business and finance from ITESM
José González Ornelas	Born:	April 1951
Executive Vice President of Administration and Operative Control	Joined FEMSA:	1973
	Appointed to current position:	2001
	Business experience	

within FEMSA:	Has held several managerial positions in FEMSA including Chief Financial Officer of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and Chief Executive Officer of FEMSA Logística, S.A. de C.V.

	Education:	Holds a CPA degree from UANL and has post-graduate studies in business administration from the Instituto Panamericano de Alta Dirección de Empresa (IPADE)
Ricardo González Sada	Born:	August 1955
Executive Vice President of Corporate Affairs	Joined FEMSA:	2000
	Appointed to current position:	2005
	Business experience within FEMSA:	Vice President of Human Resources and Strategic Planning, held managerial positions in the human resources department of FEMSA from 1977 to 1978
	Other business experience:	Had a 20-year career in Grupo Vitro, three of them as Chairman and Chief Executive Officer of Vidrio Plano, S.A. de C.V.
	Education:	Holds a degree in industrial and systems engineering from ITESM and an MBA from IESE, Barcelona
Alfonso Garza Garza	Born:	July 1962
Executive Vice President of Human Resources	Joined FEMSA:	1985
	Appointed to current position:	2005
	Directorships:	Member of the board of Coca-Cola FEMSA and Hospital San José Tec de Monterrey
	Business experience within FEMSA:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at Cervecería Cuauhtémoc Moctezuma, S.A. de C.V and as Chief Executive Officer of FEMSA Empaques
	Education:	Holds a degree in Industrial Engineering from ITESM and an MBA from IPADE
Carlos Aldrete Ancira	Born:	August 1956
General Counsel and Secretary	Joined FEMSA:	1979
	Appointed to current position:	1996
	Directorships:	Secretary of the board of directors of FEMSA and secretary of the board of directors of all of the sub-holding companies
	Business experience within FEMSA:	Extensive experience in international business and financial transactions, debt issuances and corporate restructurings and expertise in securities and private mergers and acquisitions law
	Education:	Holds a law degree from the UANL and a masters degree in Comparative Law from the College of Law of the University of Illinois

FEMSA Cerveza

Jorge Luis Ramos Santos	Born:	December 1952
Chief Executive Officer	Joined FEMSA:	1996
	Appointed to current position:	2006
	Business experience within FEMSA:	Director of Human Resources of FEMSA Cerveza from 1996 until 2000 and Director of Sales for the south region from 2000 until 2003. He acted as Co-Chief Executive Officer-Sales of Femsa Cerveza from 2003 until his appointment to his current position
	Education:	Holds a bachelor s degree from ITESM and an MBA from the Wharton Business School.

Coca-Cola FEMSA

Carlos Salazar Lomelín	Born:	April 1951
Chief Executive Officer	Joined FEMSA:	1973
	Appointed to current position:	2000
	Business experience within FEMSA:	Has held managerial positions in several subsidiaries of FEMSA, including Grafo Regia, S.A. de C.V. and Plásticos Técnicos Mexicanos, S.A. de C.V., served as Chief Executive Officer of FEMSA Cerveza, where he also held various management positions in the Commercial Planning and Export divisions
	Education:	Holds a bachelor s degree in economics from ITESM, and in egaged in postgraduate studies in business administration and economic development in Italy
Héctor Treviño Gutiérrez	Born:	August 1956
Chief Financial Officer	Joined FEMSA:	1981
	Appointed to current position:	1993
	Business experience within FEMSA:	Has held managerial positions in the international financing, financial planning, strategic planning and corporate development areas of FEMSA
	Education:	Holds a degree in chemical engineering from ITESM and an MBA from the Wharton Business School

FEMSA Comercio

Eduardo Padilla Silva	Born:	January 1955
Chief Executive Officer	Joined FEMSA:	1997
	Appointed to current position:	2003

Business experience within FEMSA:	Director of Planning and Control of FEMSA from 1997 to 2000 and Chief Executive Officer, Strategic Business Division from 2000 until 2003
Other business experience:	Had a 20-year career in Grupo Industrial Alfa, S.A. de C.V., culminating with a ten-year tenure as Chief Executive Officer of Terza, S.A. de C.V., major areas of expertise include operational control, strategic planning and financial restructuring
Education:	Holds a degree in mechanical engineering from ITESM and an MBA from Cornell University

Compensation of Directors and Senior Management

The compensation of Directors is approved at the annual ordinary general shareholders meeting. For the year ended December 31, 2005, the aggregate compensation paid to our directors was approximately Ps. 4.8 million.

For the year ended December 31, 2005, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 906 million. Aggregate compensation includes bonuses we paid to certain members of senior management and payments in connection with the EVA stock incentive plan described below. Our senior management and executive officers participate in our benefit plan and post-retirement medical services plan on the same basis as our other employees. Members of our board of directors do not participate in our benefit plan and post-retirement medical services plan, unless they are retired employees of our company. As of December 31, 2005, amounts set aside or accrued for all employees under these retirement plans were Ps. 4,417 million, of which Ps. 2,178 million is already funded.

Stock Incentive Plan

From 1998 until 2003, we, along with our subsidiaries, had a five-year stock incentive plan for the benefit of our executive officers. Under the terms of the stock incentive plan, during the years 1999 through 2003, certain of our executive officers were selected to receive a special cash bonus, which was used to obtain a stock grant. Each year, our Chief Executive Officer, together with the chief executive officers of the sub-holding companies, selected the executive officers eligible to participate in the stock incentive plan and determined the amount of the special bonus, based on each executive officer s level of responsibility and corporate achievements during the prior year.

The stock grants were administrated by certain trusts for the benefit of the selected executive officers. Every year a new administrative trust was formed to manage the stock grants acquired in that particular year. Under the terms of the stock incentive plan, each time a special bonus was assigned to an executive officer, the executive officer contributed the special bonus received to the administrative trust in exchange for a stock grant, as determined annually by us. Each administrative trust is managed by a technical committee formed by executives of our company and is governed by Mexican law.

A stock grant entitles an executive officer to receive BD Units or, in the case of officers of Coca-Cola FEMSA, a specified proportion of BD Units and Series L Shares of Coca-Cola FEMSA, which will be acquired by the respective administrative trust in the open market, using the special bonus contributed by each executive officer. Under the terms of the stock incentive plan, the ownership of the BD Units and, in its case, the Series L Shares of Coca-Cola FEMSA, will vest at a rate per year equivalent to the number of BD Units and, as applicable, Coca-Cola FEMSA Series L Shares, which can be acquired with 20% of such stock grant.

As of May 31, 2006, four administrative trusts, which administer the stock incentive plan, hold a total of 1,175,111 BD Units and 352,738 Series L Shares of Coca-Cola FEMSA, each representing 0.98% and 0.19% of the total number of shares outstanding of FEMSA and of Coca-Cola FEMSA, respectively.

EVA Stock Incentive Plan

In 2005, we, along with our subsidiaries, commenced a new three-year stock incentive plan for the benefit of our executive officers, which we refer to as the EVA stock incentive plan. This new plan replaced the stock incentive plan described above and was developed using as the main metric for evaluation the Economic Value Added, or EVA, framework developed by Stern Stewart & Co., a compensation consulting firm. Under the EVA stock incentive plan, eligible executive officers are entitled to receive a special cash bonus, which will be used to purchase a stock grant.

Under this plan, each year, our Chief Executive Officer in conjunction with the Evaluation and Compensation Committee of our board of directors, together with the chief executive officer of the respective sub-holding company, determines the amount of the special cash bonus used to purchase the stock grant. This amount is determined based on each executive officer s level of responsibility and based on the EVA generated by Coca-Cola FEMSA or FEMSA, as applicable.

The stock grants are administrated by a trust for the benefit of the selected executive officers. Under the EVA stock incentive plan, each time a special bonus is assigned to an executive officer, the executive officer contributes the special bonus received to the administrative trust in exchange for a stock grant. Pursuant to the plan, the administrative trust acquires BD Units of FEMSA or, in the case of officers of Coca-Cola FEMSA, a specified proportion of publicly traded local shares of FEMSA and Series L Shares of Coca-Cola FEMSA on the Mexican Stock Exchange using the special bonus contributed by each executive officer. The ownership of the publicly traded local shares of FEMSA and, in the case of Coca-Cola FEMSA executives, the Series L Shares of Coca-Cola FEMSA vests upon the executive officer holding a stock grant each year over the next five years following the date of receipt of the stock grant, at a rate per year equivalent to 20% of the number of publicly traded local shares of FEMSA and Series L Shares of Coca-Cola FEMSA.

As of May 31, 2006, the trust that manages the EVA stock incentive plan holds a total of 1,910,346 BD Units of FEMSA and 1,143,627 Series L Shares of Coca-Cola FEMSA, each representing 0.16% and 0.06% of the total number of shares outstanding of FEMSA and of Coca-Cola FEMSA, respectively.

Insurance Policies

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

Ownership by Management

Several of our directors are participants of a voting trust. Each of the trust participants of the voting trust is deemed to have beneficial ownership with shared voting power over the shares deposited in the voting trust. As of May 31, 2006, 2,211,344,965 Series B Shares representing 71.75% of the outstanding Series B Shares were deposited in the voting trust. See Item 7. Major Shareholders and Related Party Transactions.

The following table shows the Series B Shares, Series D-B Shares and Series D-L Shares as of May 31, 2006 beneficially owned by our directors who are participants in the voting trust, other than the shares deposited in the voting trust:

	Series B		Series D-B		Series D-L	
		Percent of		Percent of		Percent of
Beneficial Owner	**Shares**	**Class**	**Shares**	**Class**	**Shares**	**Class**
Eugenio Garza Lagüera	4,480,268	0.15%	8,884,936	0.62%	8,884,936	0.62%
José Calderón Rojas	2,497,034	0.08	4,992,068	0.35	4,992,068	0.35
Consuelo Garza de Garza	23,133,925	0.75	4,251,650	0.30	4,251,650	0.30
Max Michel Suberville	1,717,115	0.06	3,434,230	0.24	3,434,230	0.24
Alberto Bailleres	2,065,711	0.06	4,119,912	0.29	4,119,912	0.29

To our knowledge, no other director or officer is the beneficial owner of more than 1% of any class of our capital stock.

Board Practices

Our bylaws state that the board of directors will meet at least once every three months following the end of each quarter to discuss our operating results and the advancement in the achievement of strategic objectives. Our board of directors can also hold extraordinary meetings. See Item 10. Additional Information Bylaws.

Under our bylaws, directors serve one-year terms although they continue in office if and until successors are appointed. None of our directors or senior managers of our subsidiaries has service contracts providing for benefits upon termination of employment.

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

The Evaluation and Compensation (Human Resources) Committee. Responsibilities include (1) recommending procedures for the election of the Chief Executive Officer and other senior executives; (2) proposing to the board of directors the criteria for the evaluation of the Chief Executive Officer and other senior executives; and (3) analyzing and presenting to the board of directors the proposal prepared by the Chief Executive Officer regarding the structure and amount of compensation for FEMSA s key executives. The current Evaluation and Compensation Committee members are: Lorenzo H. Zambrano (chairman), Roberto Servitje, Max Michel Suberville, Arturo Fernández Pérez and Carlos Salguero. Alfonso Garza Garza is the appointed secretary of this committee.

Audit Committee. The Audit Committee works under internal regulations (Charters) that are approved by the Board of Directors. The Audit Committee is responsible for (1) reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with accounting, internal control and auditing requirements, (2) for the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee, (3) reviewing related party transactions other than in the ordinary course of our business and (4) identifying and following-up on contingencies and legal proceedings. The Audit Committee has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. To carry out its duties, the Audit Committee may hire independent counsel and other advisors. As necessary, the company compensates the independent auditor and any outside advisor hired by the Audit Committee and provides funding for ordinary administrative expenses incurred by the Audit Committee in the course of its duties. The current Audit Committee members are: Alexis E. Rovzar de la Torre (Chairman), José Manuel Canal Hernando

(Financial Expert), Helmut Paul, Francisco Zambrano Rodríguez and Alfonso González Migoya. Each member of the audit committee is an independent director, as required by the Mexican Securities Market Law and applicable New York Stock Exchange listing standards. The Secretary of the Audit Committee is José González Ornelas, head of FEMSA s internal audit department.

The Finance and Planning Committee. Responsibilities include (1) evaluating the investment and financing policies proposed by the Chief Executive Officer; (2) furnishing an opinion on the soundness of the annual budget and ensuring the implementation of the budget and any proposed strategic plan; and (3) identifying risk factors to which the corporation is exposed, as well as evaluating its management policies. The current Finance and Planning Committee members are: Ricardo Guajardo Touché (chairman), Alfredo Livas Cantú, Federico Reyes García, Robert E. Denham and Javier Fernández Carbajal. Javier Astaburuaga Sanjines is the appointed secretary of this committee.

Statutory Examiner

Under Mexican law, a statutory examiner must be elected by the shareholders at the annual ordinary general shareholders meeting for a term of one year, which term may be extended. The statutory examiner is obligated to supervise the accuracy, sufficiency and reasonableness of the financial information presented to FEMSA s shareholders and its consistency with the accounting policies and criteria followed by FEMSA. Prior to each annual ordinary general shareholders meeting of FEMSA, the statutory examiner is required to review and report as to the accuracy, sufficiency and reasonableness of the financial information presented to shareholders by the board of directors. The statutory examiner is also authorized:

- to call ordinary or extraordinary general shareholders meetings;
- to place items on the agenda for general shareholders meetings and meetings of the board of directors; and
- to attend general shareholders meetings and meetings of the board of directors (without the right to vote).

The statutory examiner is entitled to receive, in order to perform its duties, periodic reports from the board of directors regarding material aspects of our financial condition. Our current statutory examiner is Ernesto González Dávila and the current alternate statutory examiner is Ernesto Cruz Velázquez de León.

Employees

As of December 31, 2005, our headcount by geographic region was as follows: 60,119 in Mexico, 5,275 in Central America, 7,984 in Colombia, 7,339 in Venezuela, 6,765 in Brazil and 3,249 in Argentina. We include in headcount employees of third party distributors who we do not consider to be our employees. The table below sets forth headcount for the years ended December 31, 2005, 2004 and 2003:

	Headcount for the Year Ended December 31,						
	2005			2004		2003	
	Non-Union	Union	Total	Non-Union	Union	Non-Union	Union
Sub-holding company							
Coca-Cola FEMSA[1]	32,632	23,003	55,635	32,648	23,590	32,499	24,342
FEMSA Cerveza	11,765	8,049	19,814	11,006	8,742	10,475	8,698
FEMSA Comercio[2]	3,863	5,371	9,234	3,100	4,706	2,555	3,304
Other	1,943	4,105	6,048	1,716	2,709	1,664	2,599
Total	50,203	40,528	90,731	48,470	39,747	47,193	38,943

(1) Includes employees of third party distributors who we do not consider to be our employees of 16,421,16,182 and 17,130 in 2005, 2004 and 2003, respectively.

(2) Does not include non-management store employees, who are employed directly by each individual store.

As of December 31, 2005, our subsidiaries had entered into 373 collective bargaining or similar agreements with personnel employed at our operations. Each of the labor unions in Mexico is associated with one of 10 different national Mexican labor organizations. In general, we have a good relationship with the labor unions throughout our operations, except for in Colombia and Venezuela, which are the subject of significant labor-related litigation. See Item 8. Financial Information Legal Proceedings Coca-Cola FEMSA. The agreements applicable to our Mexican operations generally have an indefinite term and provide for an annual salary review and for review of other terms and conditions, such as fringe benefits, every two years.

The table below sets forth the number of collective bargaining agreements and unions for our employees:

Collective Bargaining Labor Agreements Between

Sub-holding Companies and Unions

As of December 31, 2005

Sub-holding Company	**Collective Bargaining Agreements**	**Labor Unions**
Coca-Cola FEMSA	94	31
FEMSA Cerveza	152	10
FEMSA Comercio[1]	63	4
Others	64	9
Total	373	54

(1) Does not include non-management store employees, who are employed directly by each individual store.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table identifies each owner of more than 5% of any class of our shares known to the company as of May 31, 2006. Except as described below, we are not aware of any holder of more than 5% of any class of our shares. Only the Series B Shares have full voting rights under our bylaws.

Ownership of Capital Stock as of May 31, 2006

	Series B Shares[1]		Series D-B Shares[2]		Series D-L Shares[3]		Total Shares of FEMSA Common Stock
	Shares Owned	Percent of Class	Shares Owned	Percent of Class	Shares Owned	Percent of Class	
Shareholder							
Technical Committee and Trust Participants under the Voting Trust[4]	2,211,344,965	71.75%	0	0%	0	0%	37.08%

(1) As of May 31, 2006, there were 3,082,140,090 Series B Shares outstanding.

(2) As of May 31, 2006, there were 1,440,785,180 Series D-B Shares outstanding.

(3) As of May 31, 2006, there were 1,440,785,180 Series D-L Shares outstanding.

(4) As a consequence of the voting trusts s internal procedures, the following trust participants are deemed to have beneficial ownership with shared voting power over those same deposited shares: BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/25078-7 (controlled by Max Michel Suberville), Eugenio Garza Lagüera, Paulina Garza Lagüera Gonda, Bárbara Garza de Braniff, Mariana Garza Lagüera Gonda, Eva Gonda Rivera, Eva Maria Garza Lagüera Gonda, Consuelo Garza Lagüera de Garza, Alfonso Garza Garza, Patricio Garza Garza, Juan Carlos Garza Garza, Eduardo Garza Garza, Eugenio Garza Garza, Alberto Bailleres Gonzalez, Maria Teresa Gual Aspe. de Bailleres, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by Eugenio Garza Lagüera), Corbal, S.A. de C.V. (controlled by Alberto Bailleres Gonzalez), Magdalena Michel de David, Alepage, S.A. (controlled by Consuelo Garza Lagüera de Garza), BBVA Bancomer Servicios, S.A. as Trustee under Trust No. F/29013-0 (controlled by the estate of José Calderón Ayala, late father of José Calderón Rojas), Max Michel Suberville, Max David Michel, Juan David Michel, Monique David de VanLathem, Renee Michel de Guichard, Magdalena Guichard Michel, Rene Guichard Michel, Miguel Guichard Michel, Graciano Guichard Michel, Juan Guichard Michel, Franca Servicios, S.A. de C.V. (controlled by the estate of José Calderón Ayala, late father of José Calderón Rojas) and BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres).

As of March 31, 2006, there were 25 holders of record of ADSs in the United States, which represented approximately 53% of our outstanding BD Units. Since a substantial number of ADSs are held in the name of nominees of the beneficial owners, including the nominee of The Depository Trust Company, the number of beneficial owners of ADSs is substantially greater than the number of record holders of these securities.

Related-Party Transactions

Voting Trust

The trust participants, who are our principal shareholders, agreed in April 1998 to deposit a majority of their shares, which we refer to as the trust assets, of FEMSA into the voting trust, and later entered into an amended agreement on August 8, 2005, following the substitution of Banco Invex, S.A. as trustee to the voting trust. The primary purpose of the voting trust is to permit the trust assets to be voted as a block, in accordance with the instructions of the technical committee. The trust participants are separated into seven trust groups and the

technical committee is comprised of one representative appointed by each trust group. The number of B Units corresponding with each trust group (the proportional share of the shares deposited in the trust of such group) determines the number of votes that each trust representative has on the technical committee. Most matters are decided by a simple majority of the trust assets.

The trust participants agreed to certain transfer restrictions with respect to the trust assets. The trust is irrevocable, for a term that will conclude on May 31, 2013 (subject to additional five-year renewal terms), during which time, trust assets may be transferred by trust participants to spouses and immediate family members and, subject to certain conditions, to companies that are 100% owned by trust participants, which we refer to as the permitted transferees, provided in all cases that the transferee agrees to be bound by the terms of the voting trust. In the event that a trust participant wishes to sell part of its trust assets to someone other than a permitted transferee, the other trust participants have a right of first refusal to purchase the trust assets that the trust participant wishes to sell. If none of the trust participants elects to acquire the trust assets from the selling trust participant, the technical committee will have a right to nominate (subject to the approval of technical committee members representing 75% of the trust assets, excluding trust assets that are the subject of the sale) a purchaser for such trust assets. In the event that none of the trust participants or a nominated purchaser elects to acquire trust assets, the selling trust participant will have the right to sell the trust assets to a third party on the same terms and conditions that were offered to the trust participants. Acquirors of trust assets will only be permitted to become parties to the voting trust upon the affirmative vote by the technical committee of at least 75% of the trust shares, which must include trust shares represented by at least three trust group representatives. In the event that a trust participant holding a majority of the trust assets elects to sell its trust assets, the other trust participants have tag along rights that will enable them to sell their trust assets to the acquiror of the selling trust participant s trust assets.

Because of their ownership of a majority of the Series B Shares, the trust participants may be deemed to control our company. Other than as a result of their ownership of the Series B Shares, the trust participants do not have any voting rights that are different from those of other shareholders.

Interest of Management in Certain Transactions

The following is a summary of transactions we have entered into with entities for which members of our board of directors or management serve as a member of the board of directors or management. Each of these transactions was entered into in the ordinary course of business, and we believe each is on terms comparable to those that could be obtained in arm s length negotiations with unaffiliated third parties. Under our by-laws, transactions entered with related parties not in the ordinary course of business are subject to the approval of our board of directors, subject to the prior opinion of the audit committee.

Until 2004, we, along with certain of our subsidiaries, engaged in financial and insurance coverage transactions, including entering into loans and credit line facilities, with subsidiaries of BBVA Bancomer, a financial services holding company of which Ricardo Guajardo Touché, who is also a director of FEMSA, was the chairman of the board of directors until the fourth quarter of 2004 and is currently a director, and of which José Antonio Fernández Carbajal, our Chairman and Chief Executive Officer, and Alberto Bailleres, one of our directors, are directors. These transactions include the following: (1) BBVA Bancomer was the administrative agent and was one of the lenders in a Ps. 1,728 million credit agreement entered into by FEMSA Comercio in 2004 and (2) BBVA Bancomer and its affiliates are also a lender under a term loan facility and a purchaser of *certificados bursátiles* issued in Mexico by Coca-Cola FEMSA in connection with the acquisition of Panamco.

We maintain an insurance policy covering auto insurance and medical expenses for executives issued by Grupo Nacional Provincial, S.A., an insurance company of which the chairman of the board and chief executive officer is Alberto Bailleres, one of our directors. The aggregate amount of premiums paid under these policies was approximately Ps. 50 million, Ps. 81 million and Ps. 53 million in 2005, 2004 and 2003, respectively.

In 2005, FEMSA Comercio in its ordinary course of business, purchased Ps. 880 million, Ps. 782 million and Ps. 635 million in 2005, 2004 and 2003, respectively, in baked goods and snacks for its stores from

subsidiaries of Grupo Bimbo, of which the chairman of the board is Roberto Servitje, a director of FEMSA. These purchases were entered into in the ordinary course of business, and we believe they were made on terms comparable to those that could be obtained in arm s length negotiations with unaffiliated third parties.

José Antonio Fernández Carbajal, Eva Garza de Fernández, Ricardo Guajardo Touché and Lorenzo H. Zambrano, who are directors of FEMSA, are also members of the board of directors of ITESM, which is a prestigious university in Monterrey, Mexico that routinely receives donations from FEMSA and its subsidiaries.

Business Transactions between Coca-Cola FEMSA and The Coca-Cola Company

Coca-Cola FEMSA regularly engages in transactions with The Coca-Cola Company and its affiliates. Coca-Cola FEMSA purchases all of its concentrate requirements for Coca-Cola trademark beverages from The Coca-Cola Company. Total payments by Coca-Cola FEMSA to The Coca-Cola Company for concentrates were approximately Ps. 7,763 million, Ps. 7,238 million and Ps. 6,074 million in 2005, 2004 and 2003, respectively. Coca-Cola FEMSA and The Coca-Cola Company pay and reimburse each other for marketing expenditures. The Coca-Cola Company also contributes to Coca-Cola FEMSA s refrigeration equipment investment program. Coca-Cola FEMSA received contributions to its marketing expenses, which include its refrigeration equipment investment program, of Ps. 952 million, Ps. 958 million and Ps. 1,307 million in 2005, 2004 and 2003, respectively.

In Argentina, Coca-Cola FEMSA also purchases a portion of its plastic ingot requirements for producing plastic bottles and all of its returnable bottle requirements from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina, S.A., a *Coca-Cola* bottler with operations in Argentina, Chile and Brazil in which The Coca-Cola Company has a substantial interest.

In connection with the acquisition of Panamco, subsidiaries of The Coca-Cola Company made specified undertakings to support and facilitate the Panamco acquisition for the benefit of Coca-Cola FEMSA. In consideration for these undertakings, Coca-Cola FEMSA made certain undertakings for the benefit of The Coca-Cola Company and its subsidiaries, including indemnity obligations with respect to specified matters relating to the accuracy of disclosure and the compliance with applicable law by Coca-Cola FEMSA s board of directors and the board of directors of Panamco and undertakings to take specified actions and refrain from specified others to facilitate the ability of The Coca-Cola Company to receive favorable tax treatment in connection with its participation in the acquisition. In connection with the execution of the acquisition agreement for Panamco, The Coca-Cola Company and FEMSA memorialized their understandings relating to specified operational and business issues that may affect Coca-Cola FEMSA following completion of the acquisition. A summary of these understandings is set forth under Item 10. Additional Information Material Contracts The Coca-Cola Memorandum.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See pages F-1 through F-63, incorporated herein by reference.

Dividend Policy

For a discussion of our dividend policy, see Item 3. Key Information Dividends and Item 10. Additional Information.

Legal Proceedings

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

Coca-Cola FEMSA

Mexico

Tax Matters

During 2002 and 2003, Coca-Cola FEMSA initiated two *juicios de amparo* (appeals based on the violation of constitutional rights) related to the *Impuesto Especial Sobre Productos y Servicios* (Special Tax on Products and Services, or IEPS). The 2002 appeal related to the IEPS applicable to inventories in Mexico produced with high fructose corn syrup and the 2003 appeal related to the IEPS applicable to all carbonated soft drinks in Mexico produced with non-sugar sweeteners. In November 2003, Coca-Cola FEMSA obtained a final favorable decision not subject to appeal from a Mexican federal court for its 2002 appeal and in June 2004 for its 2003 appeal. During 2004 and 2005, Coca-Cola FEMSA did not pay IEPS in any of its Mexican operations, and it has already received from the authorities a reimbursement of the IEPS paid during 2002 and 2003, including accrued interest.

In April 2004, the Mexican Supreme Court of Justice issued a ruling with respect to rules previously issued by the Mexican Ministry of Finance regarding tax deductions of certain assets in the beverage industry, such as coolers. This ruling requires these assets to be treated as fixed assets with finite useful lives. Coca-Cola FEMSA had previously considered coolers as an expense for tax purposes. This change of criteria had no effect on net income since the difference between the carrying value and tax basis of the coolers was recorded as a deferred income tax liability in prior years. Tax payments in connection with this change in criteria resulted in a charge to income in 2004 in the amount of Ps. 144 million. During March 2005, the tax authorities reviewed the payments in connection with this change in criteria, which resulted in an additional charge to income of Ps. 121 million.

Antitrust Matters

During 2000, the *Comisión Federal de Competencia* in Mexico (the Mexican Antitrust Commission), pursuant to complaints filed by PepsiCo. and certain of its bottlers in Mexico, started an investigation of The Coca-Cola Company and its bottlers. Later in 2000, the Mexican Antitrust Commission alleged, and in 2002, determined that *Coca-Cola* bottlers engaged in monopolistic practices through exclusivity arrangements with certain retailers. The Mexican Antitrust Commission did not impose any fines, but ordered *Coca-Cola* bottlers, including certain of Coca-Cola FEMSA s Mexican subsidiaries, to abstain from entering into any exclusivity

arrangement with retailers that stock soft drink bottles of up to 2.0-liters. Coca-Cola FEMSA, along with other *Coca-Cola* bottlers, appealed the resolution rendered in February 2002 by a *Recurso de Reconsideración* (Review Recourse), which was presented before the Mexican Antitrust Commission. The Mexican Antitrust Commission confirmed its original determination and issued a confirmatory resolution in July 2002. Coca-Cola FEMSA and its Mexican operating subsidiaries appealed this resolution before a Mexican federal court by initiating several *juicios de amparo* (appeals based on the violation of constitutional rights) and obtained favorable final decisions not subject to appeal. Under these judicial decisions, the resolution was declared null and void and the Mexican Antitrust Commission was ordered to issue a new resolution.

In March 2003, in a separate proceeding, the Mexican Antitrust Commission started an investigation involving The Coca-Cola Company, Coca-Cola FEMSA and certain other Coca-Cola bottlers due to complaints filed by some retailers and other bottlers. In September 2003, the Mexican Antitrust Commission requested certain Coca-Cola bottlers, including some of Coca-Cola FEMSA s Mexican subsidiaries, to provide information. Coca-Cola FEMSA initiated *amparo* proceedings, and a Mexican federal court issued a final ruling that the requests for information were unconstitutional. In August 2004, however, as a result of the investigation, the Mexican Antitrust Commission issued several *Oficios de Presunta Responsabilidad* (Statement of Charges) asserting that Coca-Cola FEMSA and its Mexican operating subsidiaries, as well as other bottlers, engaged in monopolistic practices and requested additional information. Coca-Cola FEMSA initiated *amparo* proceedings asserting the illegality of these requests, which are currently under review. In July 2005, the Mexican Antitrust Commission issued a resolution that determined Coca-Cola FEMSA engaged in certain monopolistic practices and ordered it to abstain from engaging in such practices and imposed a fine of Ps. 63.2 million. Coca-Cola FEMSA initiated *amparo* proceedings against such first instance resolution, which are currently under review. Coca-Cola FEMSA believes the resolution is without merit and intends to defend itself in this matter.

Central America

Antitrust Matters in Costa Rica

During August 2001, the *Comisión para Promover la Competencia* in Costa Rica (Costa Rican Antitrust Commission) pursuant to a complaint filed by PepsiCo. and its bottler in Costa Rica initiated an investigation of the sales practices of The Coca-Cola Company and Coca-Cola FEMSA s Costa Rican subsidiary for alleged monopolistic practices in retail distribution, including sales exclusivity arrangements. A ruling from the Costa Rican Antitrust Commission was issued in July 2004, which found the company engaged in monopolistic practices with respect to exclusivity arrangements, pricing and the sharing of refrigeration equipment under certain limited circumstances and imposed an US$ 130,000 fine. Coca-Cola FEMSA s appeal of the Costa Rican Antitrust Commission s ruling was recently dismissed. Coca-Cola FEMSA has filed judicial proceedings challenging the ruling of the Costa Rican Antitrust Commission and the process is still pending in court. Coca-Cola FEMSA does not believe that this matter will have a material adverse effect on its financial condition or results of operations.

In November, 2004, *Ajecen del Sur S.A.*, the bottler of Big Cola in Costa Rica, filed a complaint before the Costa Rican Antitrust Commission related to monopolistic practices in retail distribution and exclusivity agreements against The Coca-Cola Company and Coca-Cola FEMSA s Costa Rican subsidiary. The Costa Rican Antitrust Commission has decided to pursue an investigation. Coca-Cola FEMSA is currently awaiting notice of a hearing after which a formal investigation may be initiated. Coca-Cola FEMSA is undertaking the necessary measures to defend itself in this new process.

Tax Matters in Costa Rica

In September 2004, Coca-Cola FEMSA s Costa Rican subsidiary received notice of certain tax claims asserted by the Costa Rican tax authorities to pay taxes on sales of carbonated soft drinks from April 2002 through July 2003. These claims currently total approximately US$ 12 million. In previous years, Coca-Cola FEMSA s Costa Rican subsidiary had been required to pay similar taxes, however, due to the favorable final

decisions on the appeals that it filed, it was not required to pay these taxes. Legal actions have been initiated against the current assessment by the Costa Rican tax authorities and are currently under review. Coca-Cola FEMSA believes this assessment is without merit.

Colombia

Labor Matters

During July 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the U.S. District Court for the Southern District of Florida against certain of Coca-Cola FEMSA s subsidiaries. In the complaint, the plaintiffs alleged that the subsidiaries of the company acquired in the Panamco acquisition engaged in wrongful acts against the labor union and its members in Colombia, including kidnapping, torture, death threats and intimidation. The complaint alleges claims under the U.S. Alien Tort Claims Act, Torture Victim Protection Act, Racketeer Influenced and Corrupt Organizations Act and state tort law and seeks injunctive and declaratory relief and damages of more than US$ 500 million, including treble and punitive damages and the cost of the suit, including attorney fees. Coca-Cola FEMSA filed a motion to dismiss the complaint for lack of subject matter and personal jurisdiction. The court denied the motion to dismiss for lack of subject matter jurisdiction but has not ruled on the personal jurisdiction motion, subject to further clarification from the parties. This motion is therefore still pending. Coca-Cola FEMSA believes this lawsuit is without merit and intends to defend itself in this matter.

Venezuela

Tax Matters

In 1999, certain of Coca-Cola FEMSA s Venezuelan subsidiaries received notice of certain tax claims asserted by the Venezuelan tax authorities. These subsidiaries have taken the appropriate recourse against these claims at the administrative level as well as at the court level in Venezuela. The claims currently total approximately US$ 15.6 million. The company has certain rights to indemnification from Venbottling Holding, Inc., a former shareholder of Panamco and The Coca-Cola Company, for a substantial portion of the claims. Based on the analysis that it has completed in relation to these claims, as well as the defense strategy that it has developed, Coca-Cola FEMSA does not believe that the ultimate disposition of these cases will have a material adverse effect on its financial condition or results of operations.

Labor and Distribution Matters

Since 2001, Coca-Cola FEMSA s Venezuelan subsidiaries have been the subject of more than 350 claims and lawsuits by former independent distributors claiming alleged labor and severance rights owed to them at the time of the termination of their relationship with Coca-Cola FEMSA. As of December 31, 2005, approximately US$ 14.8 million of the total amounts claimed by former distributors were in respect of Coca-Cola FEMSA s Venezuela subsidiary. Notwithstanding the number of claims and the amounts involved, most of these claims have been filed by former distributors that either entered into release agreements with Coca-Cola FEMSA s subsidiaries at the time of their termination, and therefore Coca-Cola FEMSA believes have no rights for additional claims, or are claims that were filed after the expiration of the statute of limitations.

Brazil

Antitrust Matters

Several claims have been filed against Coca-Cola FEMSA by private parties, which are currently pending before the Brazilian Ministry of Law and Economics that allege anticompetitive practices by Coca-Cola FEMSA s Brazilian subsidiaries. The plaintiffs are Ragi (Dolly), a Brazilian producer of B Brands, and PepsiCo. Under Brazilian law, each of these claims could result in substantial monetary fines and other penalties. Coca-Cola FEMSA believes each of the claims is without merit, and it intends to defend itself in these matters. In June 2005, the claim previously filed by Serv Lar, a distributor of Coca-Cola FEMSA s products in Brazil, alleging anticompetitive practices, was resolved in Coca-Cola FEMSA s favor by the Brazilian authorities.

FEMSA Cerveza

Antitrust Matters.

On June 18, 2003, the Mexican Antitrust Commission announced that it was launching an investigation into the beer industry practice of alleged tied-customer arrangements. FEMSA Cerveza received a request for information from the Mexican Antitrust Commission. FEMSA Cerveza initiated *amparo* proceedings challenging the legality of the Commission s actions. Thus far, the Mexican federal courts have ruled on a majority of these proceedings finding no proper support or validity with respect to the Mexican Antitrust Commission s request. As of the date of this annual report, the Mexican Antitrust Commission has not formally closed its investigation nor charged FEMSA Cerveza of any illegal behavior. FEMSA Cerveza cannot give any assurances that any action taken as a result of this investigation will not negatively affect FEMSA Cerveza s operations in the future.

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. On October 7, 2004, FEMSA and FEMSA Cerveza initiated *amparo* proceedings before the appropriate Mexican federal district courts to challenge the constitutionality of the Mexican Antitrust Commission s investigation. The Mexican Antitrust Commission imposed monetary fines on FEMSA and FEMSA Cerveza because they did not provide the Mexican Antitrust Commission with the requested information. FEMSA and FEMSA Cerveza have also challenged these monetary fines in the Mexican federal courts. The courts ruled against FEMSA Cerveza and the resolution concerning FEMSA is still pending. In October 2005, however, as a result of its investigation, the Mexican Antitrust Commission issued an *Oficio de Presunta Responsabilidad* (Statement of Charges) asserting that FEMSA and FEMSA Cerveza engaged in monopolistic practices. We and FEMSA Cerveza have filed an answer to such statement of charges and the proceedings are ongoing. Neither we nor FEMSA Cerveza can give any assurances that any action taken as a result of this investigation will not negatively affect us in the future.

ITEM 9. THE OFFER AND LISTING
Description of Securities

We have three series of capital stock, each with no par value:

- Series B Shares;
- Series D-B Shares; and
- Series D-L Shares.

Series B Shares have full voting rights, and Series D-B and D-L Shares have limited voting rights. Prior to May 11, 2008, the shares of our company are not separable and may be transferred only in the following forms:

- B Units, consisting of five Series B Shares; and
- BD Units, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares.

On May 11, 2008, each Series D-B Share will automatically convert into one Series B Share with full voting rights, and each Series D-L Share will automatically convert into one Series L Share with limited voting rights. At that time:

- the BD Units and the B Units will cease to exist and the underlying Series B Shares and Series L Shares will be separate; and
- the Series B Shares and Series L Shares will be entitled to share equally in any dividend, and the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share existing prior to May 11, 2008 will be terminated.

The following table sets forth information regarding our capital stock as of May 31, 2006:

	Number	Percentage of Capital	Percentage of Voting
Class			
Series B Shares (no par value)	3,082,140,090	51.7%	100%
Series D-B Shares (no par value)	1,440,785,180	24.2	
Series D-L Shares (no par value)	1,440,785,180	24.2	
Total Shares	5,963,710,450	100%	100%
Units			
BD Units	720,392,590	60.4%	23.4%
B Units	472,349,500	39.6	76.6
Total Units	1,192,742,090	100%	100%

Trading Markets

Prior to May 11, 1998, there was no market for the BD Units, the B Units or any of our shares. Since May 11, 1998, ADSs representing BD Units have been listed on the New York Stock Exchange, and the BD Units and the B Units have been listed on the Mexican Stock Exchange. Each ADS represents 10 BD Units deposited under the deposit agreement with the ADS depositary.

The New York Stock Exchange trading symbol for the ADSs is FMX and the Mexican Stock Exchange trading symbols are FEMSA UBD for the BD Units and FEMSA UB for the B Units.

Fluctuations in the exchange rate between the Mexican peso and the U.S. dollar have affected the U.S. dollar equivalent of the Mexican peso price of our shares on the Mexican Stock Exchange and, consequently, have also affected the market price of our ADSs. See Item 3. Key Information Exchange Rate Information.

Trading on the Mexican Stock Exchange

The Mexican Stock Exchange, located in Mexico City, is the only stock exchange in Mexico. Founded in 1907, it is organized as a corporation, the shares of which are held by 30 brokerage firms, that are exclusively authorized to trade on the exchange. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 8:30 a.m. and 3:00 p.m. Mexico City time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the BD Units that are directly or indirectly (for example, in the form of ADSs) quoted on a stock exchange (including for these purposes the New York Stock Exchange) outside Mexico.

Settlement is effected two business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the *Comisión Nacional Bancaria y de Valores* (the Mexican National Banking and Securities Commission) or CNBV. Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Indeval, S.A. de C.V., Instituto para el Depósito de Valores,* a privately owned securities depositary that acts as a clearinghouse for Mexican Stock Exchange transactions.

Price History

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 (Units)
	High(2)	Low(2)	Close(3)	FX rate	Close US$(4)	
2001	41.00	25.20	31.02	9.16	3.39	1,132,468
2002	46.00	31.89	37.93	10.43	3.64	948,565
2003	44.68	33.50	41.48	11.24	3.69	1,011,052
2004						
First Quarter	55.00	41.02	54.97	11.13	4.94	1,594,157
Second Quarter	56.70	48.18	52.72	11.49	4.59	1,293,167
Third Quarter	52.76	47.26	50.30	11.38	4.42	728,851
Fourth Quarter	59.60	49.99	58.51	11.15	5.25	827,765
2005						
First Quarter	67.75	57.02	59.84	11.18	5.35	546,675
Second Quarter	64.13	55.89	64.13	10.76	5.96	936,520
Third Quarter	79.39	63.70	75.14	10.79	6.96	677,012
Fourth Quarter	77.96	70.09	77.08	10.63	7.25	614,653
October	74.55	70.09	73.24	10.79	6.79	587,100
November	75.16	71.87	71.87	10.58	6.79	668,955
December	77.96	71.43	77.08	10.63	7.25	585,319
2006						
January	83.92	77.06	82.00	10.44	7.85	645,864
February	90.52	80.53	90.37	10.45	8.64	821,389
March	100.72	88.55	99.45	10.90	9.15	1,078,005
April	102.51	96.40	102.51	11.09	9.27	707,183
May	106.08	95.29	96.98	11.29	8.59	1,084,964
June(5)	99.38	83.73	86.20	11.42	7.55	1,141,891

(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) Information from June 1, 2006 to June 15, 2006.

	B Units [1]					
	Nominal pesos					Average Daily Trading Volume (Units)
	High[2]	Low[2]	Close[3]	FX rate	Close US$[4]	
2001	45.00	27.92	36.10	9.16	3.94	15,967
2002	40.00	34.00	37.00	10.43	3.55	800
2003	40.90	33.70	38.70	11.24	3.44	2,278
2004						
First Quarter	49.00	39.50	47.50	11.13	4.25	11,618
Second Quarter	48.50	46.00	48.40	11.49	4.19	690
Third Quarter	49.00	47.00	49.00	11.38	4.30	3,522
Fourth Quarter	52.00	45.10	52.00	11.15	4.66	2,083
2005						
First Quarter	56.39	48.70	55.00	11.18	4.92	591
Second Quarter	58.24	50.11	51.15	10.76	4.75	991,861
Third Quarter	72.50	53.95	72.24	10.79	6.69	525
Fourth Quarter	71.25	65.00	65.00	10.63	6.12	195
October	71.25	70.00	70.00	10.79	6.49	650
November	65.00	65.00	65.00	10.58	6.15	200
December				10.63		
2006						
January	72.90	69.00	72.90	10.44	6.98	1,577
February	85.00	72.00	85.00	10.45	8.13	2,878
March	90.00	86.00	90.00	10.90	8.28	566,035
April	97.30	93.00	93.00	11.09	8.41	4,100
May	102.08	93.50	96.00	11.29	8.50	236,082
June[5]						

(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) There was no active trading of B units from June 1, 2006 to June 15, 2006.

	ADSs[1] U.S. dollars			Average Daily Trading Volume
	High[2]	**Low[2]**	**Close[3]**	**(ADSs)**
2001	45.00	26.80	34.55	231,109
2002	49.21	33.80	36.42	229,017
2003	42.11	30.65	36.88	250,142
2004				
First Quarter	49.71	37.01	49.27	376,589
Second Quarter	50.70	41.52	45.84	314,022
Third Quarter	46.03	41.40	44.18	211,569
Fourth Quarter	52.93	43.69	52.61	230,447
2005				
First Quarter	60.88	51.05	53.55	296,533
Second Quarter	59.57	50.91	59.57	383,661
Third Quarter	73.75	59.32	69.92	357,092
Fourth Quarter				
October	69.65	64.50	67.99	366,157
November	70.28	67.80	67.99	235,300
December	72.55	67.54	72.51	223,781
2006				
January	80.26	74.56	78.34	279,180
February	86.99	76.65	86.99	328,100
March	91.94	82.80	91.66	445,096
April	93.24	87.18	92.88	398,153
May	96.99	84.13	85.79	502,064
June[4]	88.45	73.22	76.00	759,827

(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) Information from June 1, 2006 to June 15, 2006.

ITEM 10. ADDITIONAL INFORMATION

Bylaws

The following is a summary of the material provisions of our bylaws and applicable Mexican law. For a description of the provisions of our bylaws relating to our board of directors, executive officers and statutory examiners, see Item 6. Directors, Senior Management and Employees.

On December 30, 2005, the New Mexican Securities Market Law (the New Mexican Securities Law) was published, with an effective date of June 28, 2006. The New Mexican Securities Market Law includes provisions that seek to improve the regulation of disclosure of information, minority shareholder rights, corporate governance and internal control procedures. In addition, the New Mexican Securities Law imposes further duties and liabilities on the members of the Board of Directors as well as on the relevant officers (such as a duty of loyalty and a duty of care). Likewise, under the New Mexican Securities Law we are required to adopt specific amendments to our bylaws within 180 days of the effective date of the new law. We currently expect the most significant of these amendments to relate to: (1) revising our corporate name to reflect that we have adopted a new corporate form called a Publicly Held Company (*Sociedad Anónima Bursátil*), (2) creating the Corporate Practices Committee, a new committee of our Board of Directors, which will consist exclusively of independent directors and (3) eliminating the role and responsibilities of the statutory examiner (*Comisario*), whose responsibilities will be assumed by the Board of Directors through the Audit Committee and the new Corporate Practices Committee, as well as by our external auditor. The following summary does not give effect to these amendments.

Organization and Register

We are a *sociedad anónima de capital variable* organized in Mexico under the Mexican General Corporations Law. We were incorporated in 1936 under the name Valores Industriales, S.A., as a *sociedad anónima*, and are currently named Fomento Económico Mexicano, S.A. de C.V. We were registered in the Public Registry of Commerce of Monterrey, Nuevo León on May 30, 1936 under the mercantile number 16, page 168, volume 79, third book, second auxiliary of the Registry.

Voting Rights and Certain Minority Rights

Each Series B Share entitles its holder to one vote at any of our ordinary or extraordinary general shareholders meetings. Our bylaws state that the board of directors must comprise at least 16 members. Holders of Series B Shares are entitled to elect at least 11 members of our board of directors, which shall constitute the majority of the board at all times. Holders of Series D-B and D-L Shares are entitled to elect five members of our board of directors and, upon conversion of the Series D-L Shares to Series L Shares or upon issuance of Series L Shares, the holders of Series L Shares will be entitled to elect two members of the board of directors. None of our shares has cumulative voting rights, which are not customary for Mexican companies.

Under our bylaws, the holders of Series D and L Shares are entitled to vote at extraordinary shareholders meetings called to consider any of the following limited matters: (1) the transformation from one form of corporate organization to another, other than from a company with variable capital stock to a company without variable capital stock or vice versa, (2) any merger in which we are not the surviving entity or with other entities whose principal corporate purposes are different from those of our company or our subsidiaries, (3) change of nationality, (4) dissolution and liquidation and (5) the cancellation of the registration of the Series D Shares or Series L Shares in the Mexican Stock Exchange or in any other foreign stock market where listed, except in the case of the conversion of these shares as provided for in our bylaws.

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

Pursuant to the Mexican Securities Market Law and the Mexican General Corporations Law, our bylaws include a number of minority shareholder protections. These minority protections include provisions that permit:

- holders of at least 10% of our outstanding capital stock entitled to vote (including in a limited or restricted manner), to call a shareholders meeting;

- holders of at least 15% of our outstanding capital stock, to bring an action for civil liabilities against our directors, members of the audit committee and our statutory examiners if (1) the relevant shareholders shall have voted against exercising such action at the relevant shareholders meeting, (2) the claim covers all of the damage alleged to have been caused to us and not merely the damage suffered by the complaining shareholders and (3) any recovery is for FEMSA s benefit and not the benefit of the complaining shareholders;

- holders of at least 10% of our outstanding capital stock who are entitled to vote at any shareholders meeting, to request that resolutions with respect to any matter on which they were not sufficiently informed be postponed;

- holders of 20% of our outstanding capital stock, to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder;

- holders of at least 10% of our outstanding capital stock, to appoint one member of our board of directors and one alternate member of our board of directors; and

- holders of at least 10% of our outstanding capital stock, to appoint one statutory examiner and one alternate statutory examiner.

Shareholder Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 of the Mexican General Corporations Law and our bylaws. These matters include: amendments to our bylaws, liquidation, dissolution, merger and transformation from one form of corporate organization to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. General meetings called to consider all other matters, including increases or decreases affecting the variable portion of our capital stock, are ordinary meetings. An ordinary meeting must be held at least once each year within the first four months following the end of the preceding fiscal year (1) to consider the approval of the financial statements of FEMSA and certain of our subsidiaries for the preceding fiscal year, (2) to appoint, remove or ratify directors and statutory examiners and to determine their compensation and (3) to determine the allocation of profits and losses of the preceding year. Generally, as a matter of Mexican law, holders of securities of limited voting rights are not entitled to attend shareholders meetings at which they are not entitled to vote. Holders of BD Units or B Units, and beginning on May 11, 2008, holders of B Shares, are entitled to attend all shareholders meetings of the Series B Shares and Series D Shares included in the BD Units or B Units and to vote on matters that are subject to the vote of holders of the underlying shares.

The quorum for an ordinary shareholders meeting of the Series B Shares on first call is more than 50% of the Series B Shares, and action may be taken by a majority of the Series B Shares represented at the meeting. If a quorum is not available, a second or subsequent meeting may be called and held by whatever number of Series B Shares is represented at the meeting, at which meeting action may be taken by a majority of the Series B Shares that are represented at the meeting.

The quorum for an extraordinary shareholders meeting is at least 75% of the shares entitled to vote at the meeting, and action may be taken by a vote of the majority of all the outstanding shares that are entitled to vote. If a quorum is not available, a second meeting may be called, at which the quorum will be the majority of the outstanding capital stock entitled to vote, and actions will be taken by holders of the majority of all the outstanding capital stock entitled to vote.

Shareholders meetings may be called by the board of directors, the statutory examiner and, under certain circumstances, a Mexican court. In addition, an ordinary shareholders meeting may be called by any holder of Series B Shares if an ordinary shareholders meeting has not been held within the preceding two fiscal years or if any action required under Mexican law to be taken at any ordinary shareholders meeting is not taken. A notice of meeting and an agenda must be published in the *Periódico Oficial del Estado de Nuevo León* (the Official State Gazette of Nuevo León) or a newspaper of general circulation in Monterrey, Nuevo León, Mexico at least 15 days prior to the date set for the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whomever convened the meeting. Shareholders meetings will be deemed validly held and convened without a prior notice or publication whenever all the shares representing our capital stock are fully represented. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice. To attend a meeting, shareholders must deposit their shares with the company or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend a meeting, a shareholder may be represented by an attorney-in-fact.

Dividend Rights

At the annual ordinary general shareholders meeting, the board of directors submits the financial statements of the 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 paid in 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 the shareholders. Dividends may only be paid if net profits are sufficient to offset losses from prior fiscal years.

Amounts allocated as dividends will be paid to the holders of capital stock of our company in the following manner. 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 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 B Shares and Series L Shares that are outstanding and fully paid at the time a dividend is declared will be entitled to share equally in any dividend.

Change in Capital and Withdrawal Rights

Our outstanding capital stock consists of both a fixed and a variable portion. The fixed portion of our capital stock may be increased or decreased only by an amendment of the bylaws adopted by a resolution of the holders of the Series B Shares at an extraordinary shareholders meeting or, in the case of a reduction of capital represented by the Series D-B, Series D-L or Series L Shares, a resolution of the holders of Series D-B, Series D-L or Series L Shares, as the case may be, at a special meeting of the holders of Series D-B, Series D-L or

Series L Shares, as the case may be. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting. Capital increases and decreases must be recorded in our share registry and book of capital variations, if applicable.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of stockholders equity.

The fixed portion of our capital stock cannot be withdrawn. The outstanding variable portion of our capital stock may be fully or partially withdrawn by the shareholders, at the election of each of them. Shareholders wishing to effect a total or partial withdrawal must notify us in writing. If the notice of withdrawal is received prior to the last quarter of the fiscal year, the withdrawal becomes effective at the end of the fiscal year in which the notice is given. Otherwise, the withdrawal becomes effective at the end of the following fiscal year. Upon an election by a shareholder to withdraw its shares representing variable capital as described above, our capital stock will be reduced.

Reimbursement of withdrawn shares is made at the lower of: (1) 95% of the average price per share quoted on the Mexican Stock Exchange during the 30 trading days prior to the date on which the withdrawal becomes effective, and (2) the book value per share as calculated from the company s financial statements (as approved at the annual ordinary general shareholders meeting) for the fiscal year at the end of which the withdrawal becomes effective. Shareholders exercising their withdrawal rights can request reimbursement by us on the day following the ordinary shareholders meeting at which the financial statements referred to above are approved.

Because our fixed capital cannot be withdrawn, requests for withdrawals are satisfied only to the extent of the available variable capital and in the order in which they are received. Requests that are received simultaneously are fulfilled pro rata to the extent of the available variable capital.

Any increase or decrease in our capital stock or any redemption or repurchase will be subject to the following limitations: (1) Series B Shares will always represent at least 51% of our outstanding capital stock and the Series D-L Shares and Series L Shares will never represent more than 25% of our outstanding capital stock; (2) before May 11, 2008, the Series D-B, Series D-L and Series L Shares will not exceed, in the aggregate, 49% of our outstanding capital stock; and (3) from and after May 11, 2008, no Series D Shares will be outstanding, the Series L Shares will represent up to 25% of our outstanding capital stock and the Series B Shares will represent at least 75% of our outstanding capital stock.

Preemptive Rights

Under Mexican law, except in limited circumstances (including mergers, sales of repurchased shares, conversion into shares of convertible securities and issuances under Article 81 of the Mexican Securities Market Law, which is described below), in the event of an increase in our capital stock, a holder of record generally has the right to subscribe to shares of a series held by such holder sufficient to maintain such holder s existing proportionate holding of shares of that series. Preemptive rights must be exercised during a term fixed by the shareholders at the meeting declaring the capital increase, which term must last at least 15 days following the publication of notice of the capital increase in the Official State Gazette. As a result of applicable United States securities laws, holders of ADSs may be restricted in their ability to participate in the exercise of preemptive rights under the terms of the deposit agreement. Shares subject to a preemptive rights offering, with respect to which preemptive rights have not been exercised, may be sold by us to third parties on the same terms and conditions previously approved by the shareholders or the board of directors. Under Mexican law, preemptive rights cannot be waived in advance or be assigned, or be represented by an instrument that is negotiable separately from the corresponding shares.

Article 81 of the Mexican Securities Market Law permits the issuance and sale of shares through a public offering without granting shareholders preemptive rights, if permitted by the bylaws and upon, among other things, express authorization of the CNBV and the approval of the extraordinary shareholders meeting called for

such purpose. Our bylaws permit the issuance and sale of shares in a public offering in accordance with Article 81 as long as shareholders representing 25% or more of the Series B Shares do not vote against such issuance. Any shareholder that votes against such issuance has the right to demand that we sell such shareholder s shares to the public, prior to the newly issued shares being sold, at the same price at which the newly issued shares are to be sold.

Limitations on Share Ownership

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

As a general rule, the Foreign Investment Law allows foreign holdings of up to 100% of the capital stock of Mexican companies, except for those companies engaged in certain specified restricted industries. The Foreign Investment Law and its regulations require that Mexican shareholders retain the power to determine the administrative control and the management of corporations in industries in which special restrictions on foreign holdings are applicable. Foreign investment in our shares is not limited under either the Foreign Investment Law or its regulations.

Authority of the Board of Directors

The board of directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Market Law, the board of directors must approve, among other matters:

- any transactions outside of the ordinary course of our business to be undertaken with related parties;
- significant asset transfers or acquisitions;
- providing material guarantees or collateral; and
- other material transactions.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of the disinterested members of the board of directors present at the meeting. If required, the chairman of the board of directors may cast a tie-breaking vote.

Redemption

We may redeem part of our shares for cancellation with retained earnings pursuant to a decision of an extraordinary shareholders meeting. Only shares subscribed and fully paid for may be redeemed. Any shares intended to be redeemed shall be purchased on the Mexican Stock Exchange in accordance with the Mexican General Corporations Law and the Mexican Securities Market Law. No shares will be redeemed, if as a consequence of such redemption, the Series D-B, Series D-L and Series L Shares in the aggregate exceed the percentages permitted by our bylaws or if any such redemption will reduce our fixed capital below its minimum.

Repurchase of Shares

We may repurchase shares of our capital stock on the Mexican Stock Exchange at prevailing market prices. The economic and voting rights corresponding to repurchased shares may not be exercised during the period such shares are owned by us, and such shares will not be deemed outstanding for purposes of calculating any quorum or vote at any shareholders meeting. We are not required to create a special reserve for the repurchase of shares,

and we do not need the approval of our board of directors to effect share repurchases. However, we need the approval of our shareholders and our board of directors must appoint an individual or group of individuals for effecting share repurchases. Share repurchases must be made subject to the provisions of applicable law, including the Mexican Securities Market Law, and carried out, reported and disclosed in the manner specified by the CNBV. If we intend to repurchase shares representing more than 1% of our outstanding share capital at a single trading session, we must inform the public of such intention at least 10 minutes before submitting our bid. If we intend to repurchase shares representing 3% or more of our outstanding capital stock, we are required to conduct a public tender offer for such shares.

Our subsidiaries or other entities controlled by us may not purchase, directly or indirectly, shares representing our capital stock or shares of companies or entities that are our shareholders.

Forfeiture of Shares

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

Duration

The bylaws provide that the duration of our company is 99 years, commencing on May 30, 1936.

Conflict of Interest

Any shareholder that has a conflict of interest with respect to a transaction of our company is required to disclose such conflict and abstain from voting with respect to such transaction at the relevant shareholders meeting. A shareholder that votes on a business transaction in which its interests conflict with those of our company may be liable for damages, but only if the transaction would not have been approved without its vote.

Under Mexican law, any director who has a conflict of interest with our company in any transaction must disclose such fact to the other directors and abstain from voting. Any director who violates such provisions will be liable for damages.

Our directors and statutory examiners may not represent shareholders in any shareholder meetings.

Appraisal Rights

Whenever the shareholders approve a change of corporate purpose, change of nationality or the transformation from one form of corporate organization to another, any shareholder entitled to vote on such change that has voted against it, may withdraw as a shareholder of our company and have its shares redeemed by FEMSA at a price per share calculated as specified under applicable Mexican law, provided that it exercises its right within 15 days following the adjournment of the meeting at which the change was approved. Under Mexican law, the amount which a withdrawing shareholder is entitled to receive is equal to its proportionate interest in our capital stock or according to our most recent balance sheet approved by an ordinary general shareholders meeting.

Obligation of Majority Shareholders

In accordance with our corporate charter, and as prescribed by CNBV regulations, a controlling shareholder is required to make a public tender offer for the purchase of stock held by the minority shareholders in the event that the listing of the shares on the Mexican Stock Exchange is cancelled, either by our resolution or by an order of the CNBV. A controlling shareholder is a shareholder that holds a majority of our capital stock with full voting rights, has the ability to control the outcome of decisions made at a shareholders meeting or has the ability to appoint a majority of the members of our board of directors. The price at which the shares must be purchased by a controlling shareholder is the higher of (1) the average quotation price on the Mexican Stock Exchange for the 30 trading days prior to the date of the offer, or (2) the book value, as reflected in the last report filed with the CNBV and the Mexican Stock Exchange. In accordance with CNBV regulations, in the event that a controlling shareholder is unable to purchase all of our outstanding shares pursuant to a tender offer, it must form a trust, that must be maintained for a period of six months, and contribute to it the amount required to secure payment of the purchase price offered pursuant to the tender offer to all of our shareholders that did not sell their shares during the tender offer proceedings.

A controlling shareholder is not required to make a tender offer if the cancellation of the listing is approved by shares representing at least 95% of our capital stock and the aggregate consideration payable for publicly traded shares does not exceed 300,000 *Unidades de Inversión*, which is a Mexican inflation unit adjusted by the changes in the Mexican Consumer Price Index. This provision of our corporate charter may not be amended without the consent of shares representing at least 95% of our capital stock and the prior approval of the CNBV. Five business days prior to the commencement of the tender offer, our board of directors must make a determination with respect to fairness of the tender offer price, taking into consideration the minority shareholders interests, and disclose its opinion, which must refer to the justifications of the offer price. If the board of directors is precluded from making such determination as a result of a conflict of interest, the resolution of the board of directors must be based upon a fairness opinion issued by an expert selected by the audit committee.

Liquidation

Upon the dissolution of our company, one or more liquidators must be appointed by an extraordinary general meeting of the shareholders to wind up its affairs. All fully paid and outstanding shares of capital stock will be entitled to participate equally in any distribution upon liquidation.

Limited Liability

Shareholders liability for our company s losses are limited to their shareholdings in our company.

Taxation

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

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

Mexican Taxation

For purposes of this summary, the term non-resident holder means a holder that is not a resident of Mexico for tax purposes and that does not hold our ADSs in connection with the conduct of a trade or business through a permanent establishment for tax purposes in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico, but his or her *Centro de Intereses Vitales* (Center of Vital Interests) (as defined in the Mexican Tax Code) is located in Mexico. A legal entity is a resident of Mexico either if it is organized under the laws of Mexico or if it has its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless he or she can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

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

Taxation of Dispositions of ADSs. Gains from the sale or disposition of ADSs by non-resident holders will not be subject to Mexican tax, if the disposition is carried out through a stock exchange recognized under applicable Mexican tax law.

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

Other Mexican Taxes. There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer, exchange or disposition of our ADSs. There are no Mexican stamp, issue, registration or similar taxes or duties payable by holders of our ADSs.

United States Taxation

Taxation of Dividends. The gross amount of any dividends paid with respect to our shares represented by our ADSs generally will be included in the gross income of a U.S. holder as ordinary income on the day on which the dividends are received by the ADS depositary and will not be eligible for the dividends received deduction allowed to corporations under the Internal Revenue Code of 1986, as amended. Dividends, which will be paid in Mexican pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated, in general, by reference to the exchange rate in effect on the date that they are received by the ADS depositary (regardless of whether such Mexican pesos are in fact converted into U.S. dollars on such date). If such dividends are converted into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. holders should consult their tax advisors regarding

the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of receipt. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of the ADSs for taxable years beginning before January 1, 2011 is subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2005 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2006 taxable year. Dividends generally will constitute foreign source passive income for U.S. foreign tax credit purposes.

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

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

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

Any gain realized by a U.S. holder on the sale or other disposition of ADSs will be treated as U.S. source income for U.S. foreign tax credit purposes.

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

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

Material Contracts

We and our subsidiaries are parties to a variety of material agreements with third parties, including shareholders agreements, supply agreements and purchase and service agreements. Set forth below are summaries of the material terms of such agreements. The actual agreements have either been filed as exhibits to, or incorporated by reference in, this annual report. See Item 19. Exhibits.

Coca-Cola FEMSA

Shareholders Agreement

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

The shareholders agreement contemplates that Coca-Cola FEMSA will be managed in accordance with one-year and five-year business plans, although in practice, it is now managed according to a three-year plan.

Under Coca-Cola FEMSA s bylaws, its Series A Shares and Series D Shares are the only shares with full voting rights and, therefore, control actions by its shareholders and board of directors. The holders of Series A Shares and Series D Shares have the power to determine the outcome of all actions requiring approval by its board of directors and, except in certain limited situations, all actions requiring approval of the shareholders. For actions by its board of directors, a supermajority including the directors appointed by the holders of Series D Shares is required. For shareholder actions, a majority of the shares represented at the shareholder meeting must vote in favor, whereas to amend the voting or quorum rights set out in Coca-Cola FEMSA s bylaws, a supermajority of at least 95% of those voting and not abstaining, must vote in favor.

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

In addition to the rights of first refusal provided for in Coca-Cola FEMSA s bylaws regarding proposed transfers of Series A Shares or Series D Shares, the shareholders agreement contemplates three circumstances under which one principal shareholder may purchase the interest of the other in Coca-Cola FEMSA: (1) a change in control in a principal shareholder; (2) the existence of irreconcilable differences between the principal shareholders; or (3) the occurrence of certain specified defaults.

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

and quorum requirements, after which the shareholders agreement would terminate. In the event that the ownership of Coca-Cola FEMSA s shares of capital stock other than the Series L Shares of the subsidiaries of The Coca-Cola Company or FEMSA is reduced below 25% (but not below 20%) and upon the request of the shareholder whose interest is not so reduced, the shareholders agreement requires that Coca-Cola FEMSA s bylaws be amended to eliminate all super-majority voting and quorum requirements, other than those relating to the share transfer restrictions.

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

The Coca-Cola Memorandum

In connection with the acquisition of Panamco, Coca-Cola FEMSA established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and our company that were memorialized in writing prior to completion of the acquisition. The terms are as follows:

The current stockholder arrangements between our company and The Coca-Cola Company will continue in place. See Shareholders Agreement.

We will continue to consolidate Coca-Cola FEMSA s financial results.

The Coca-Cola Company and our company will continue to discuss in good faith the possibility of implementing changes to Coca-Cola FEMSA s capital structure in the future.

There will be no changes in concentrate incidence pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with Coca-Cola FEMSA and will take Coca-Cola FEMSA s operating condition into consideration.

The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account Coca-Cola FEMSA s performance in Brazil, The Coca-Cola Company does not consider Coca-Cola FEMSA to be part of this long-term strategic solution for Brazil, then Coca-Cola FEMSA will sell its Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures.

FEMSA, The Coca-Cola Company and Coca-Cola FEMSA will meet to discuss the optimal Latin American territorial configuration for the *Coca-Cola* bottler system. During this meeting, Coca-Cola FEMSA will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, Coca-Cola FEMSA will entertain any potential combination as long as it is strategically sound and done at fair market value.

Coca-Cola FEMSA would like to keep open strategic alternatives that relate to the integration of carbonated soft drinks and beer. The Coca-Cola Company, our company and Coca-Cola FEMSA would explore these alternatives on a market-by-market basis at the appropriate time.

The Coca-Cola Company will sell to a subsidiary of our company sufficient shares to permit FEMSA to beneficially own 51% of Coca-Cola FEMSA s outstanding capital stock (assuming that this subsidiary of FEMSA does not sell any shares and that there are no issuances of Coca-Cola FEMSA s stock other than as contemplated by the acquisition). This understanding will be in place until May 2006. In this proposed sale, FEMSA would pay the higher of:

The prevailing market price per share at the time of the sale; and

The sum of US$ 2.216 per share (US$ 22.16 per ADS) plus The Coca-Cola Company s carrying costs.

Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and FEMSA will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that our company and The Coca-Cola Company will reach agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.

Coca-Cola FEMSA entered into a stand-by credit facility, on December 19, 2003, with The Coca-Cola Export Corporation. Under this facility, Coca-Cola FEMSA may borrow, subject to certain conditions, up to US$ 250 million for working capital and other general corporate purposes at any time when such funding is not otherwise available until December 2006.

Bottler Agreements

Bottler agreements are the standard agreements that The Coca-Cola Company enters into with bottlers outside the United States for the sale of concentrates for certain *Coca-Cola* trademark beverages. Coca-Cola FEMSA manufactures, packages, distributes and sells soft drink beverages and bottled water under a separate bottler agreement for each of its territories.

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

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

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

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

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

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

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

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

The Coca-Cola Company contributed a significant portion of Coca-Cola FEMSA s total marketing expenses in its territories during 2005. Although Coca-Cola FEMSA believes that The Coca-Cola Company intends to continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. See Shareholders Agreement.

Coca-Cola FEMSA has separate bottler agreements with The Coca-Cola Company for each of the territories in which it operates. Some of these bottler agreements renew automatically unless one of the parties gives prior notice that it does not wish to renew the agreement, while others require Coca-Cola FEMSA to give notice electing to renew the agreement. The following table summarizes by segment the expiration dates and renewal provisions of Coca-Cola FEMSA s bottler agreements:

Segment	Expiration Date	Renewal Provision
Mexico	For two territories June 2013	10 years, renewable automatically.
	For two territories May 2015[5]	10 years, renewable automatically.
Central America[1]	Guatemala June 2006	Renewable as agreed between the parties.
	Nicaragua June 2006	Five years, requires notice at least six but not more than 12 months before expiration date.
	Costa Rica September 2007	Five years, requires notice at least six but not more than 12 months before expiration date.

Segment	Expiration Date	Renewal Provision
Colombia	June 2006[1]	Five years, requires notice at least six but not more than 12 months before expiration date.
Venezuela	For Coca-Cola trademark beverages August 2006 For other beverages August 2006	Five years, requires notice at least six but not more than 12 months before expiration date. Renewable as agreed between the parties.
Brazil	December 2004[2]	Five years, requires notice at least six but not more than 12 months before expiration date.
Argentina	September 2014	10 years, renewable automatically.

(1) Coca-Cola FEMSA is in the process of finalizing the bottler agreement for Panama, which it expects will be substantially similar to its existing bottler agreements.
(2) Coca-Cola FEMSA is currently in the process of negotiating a renewal for this territory.

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

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

Documents on Display

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its public reference rooms in Washington, D.C., at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Filings we make electronically with the SEC are also available to the public over the Internet at the SEC s website at www.sec.gov.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our business activities require the holding or issuing of financial instruments that expose us to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk.

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2005, we had outstanding long-term indebtedness of Ps. 33,952 million, of which 37.7% bore interest at fixed interest rates and 62.3% bore interest at variable interest rates. Swap contracts held by us effectively switch a portion of our variable rate indebtedness into fixed rate indebtedness. After giving effect to these contracts, as of December 31, 2005, 89.9% of our long-term indebtedness was fixed rate and 10.1% of our long-term indebtedness was variable rate. The interest rate on our variable rate debt is determined by reference to the London Interbank Offered Rate, or LIBOR, (a benchmark rate used for Eurodollar loans), the *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate), or TIIE, and the *Certificados de la Tesorería* (Treasury Certificates), or CETES, rate. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our financial instruments that are sensitive to changes in interest rates. The table presents notional amounts and weighted average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on the reference rates on December 31, 2005, plus spreads contracted by us. The instruments actual payments are denominated in U.S. dollars, Mexican pesos, Colombian pesos and Guatemalan quetzals. All of the payments in the table are presented in Mexican pesos, our reporting currency, utilizing the December 31, 2005 exchange rate of 10.7109 Mexican pesos per U.S. dollar, 0.0047 Mexican pesos per Colombian peso and 1.4080 Mexican pesos per Guatemalan quetzal.

The table below also includes the estimated fair value as of December 31, 2005 of:

- long-term debt, based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities;
- long-term notes payable, based on quoted market prices; and
- interest rate swaps, based on quoted market prices to terminate the contracts as of December 31, 2005.

As of December 31, 2005, the fair value represents a loss of Ps. 190 million.

Principal by Year of Maturity

	At December 31, 2005								At December 31, 2004	
	2006	2007	2008	2009	2010	2011 and thereafter	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions of constant Mexican pesos)									
Long-term debt:										
Fixed rate debt:										
U.S. dollars	2,228	92	92	3,295	18		5,725	5,983	6,232	6,699
Interest rate[1]	7.7%	7.0%	7.1%	7.2%	3.4%		7.7%		7.7%	
Mexican pesos	1,425	50	50	640	2,200	2,696	7,061	7,213	4,065	7,951
Interest rate[1]	9.6%	9.8%	9.8%	9.8%	9.8%	9.8%	9.6%		9.6%	
Subtotal	3,653	142	142	3,935	2,218	2,696	12,786	13,196	10,297	14,650
Variable rate debt:										
U.S. dollars	115	105	68	218	29	1,890	2,425	2,425	4,437	4,072
Interest rate[1]	4.8%	4.8%	4.7%	4.7%	4.7%	4.7%	4.8%		2.8%	
Mexican pesos	217	2,032	6,881	2,635	2,653	3,927	18,345	18,414	25,718	22,598
Interest rate[1]	9.3%	9.3%	9.4%	9.2%	9.1%	9.1%	9.3%		9.3%	
Colombian pesos	211	161					372	372	715	392
Interest rate[1]	8.7%	9.3%					8.7%		10.1%	
Guatemalan quetzals	24						24	24		
Interest rate[1]	6.5%						6.5%			
Subtotal	567	2,298	6,949	2,853	2,682	5,817	21,166	21,235	30,870	27,062
Total debt	4,220	2,440	7,091	6,788	4,900	8,513	33,952	34,431	41,167	41,712
Derivative instruments:										
Cross currency and interest rate swaps (U.S. dollars to Mexican pesos):										
Variable to fixed				161	1,339		1,500	(175)	1,612	1
Interest pay rate[1]				11.1%	11.1%		11.1%		10.0%	
Interest receive rate[1]				4.7%	4.7%		4.7%		2.9%	
Interest rate swaps:										
Mexican pesos:										
Variable to fixed		1,981	5,075	2,615	2,634	3,923	16,228	(494)	18,197	(64)
Interest pay rate[1]		9.8%	10.0%	10.3%	10.3%	10.1%	9.8%		9.8%	
Interest receive rate[1]		9.4%	9.4%	9.2%	9.1%	9.1%	9.4%		9.3%	

(1) Weighted average interest rate.

A hypothetical, instantaneous and unfavorable change of one percentage point in the average interest rate applicable to variable-rate liabilities held at December 31, 2005 would increase our interest expense by approximately Ps. 56 million, or 22.6%, over a 12-month period of 2006, assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest swap agreements.

Foreign Currency Exchange Rate Risk

Our principal exchange rate risk involves changes in the value of the local currencies, of each country in which we operated, relative to the U.S. dollar. In 2005, the percentage of our consolidated total revenues was denominated as follows:

Total Revenues by Currency At December 31, 2005

Country	Currency	% of Consolidated Total Revenues
Mexico	Mexican peso	76.9
Brazil	Real	5.5
Venezuela	Bolivar	4.7
Colombia	Colombian peso	4.4
Argentina	Argentine peso	2.7
United States	U.S. dollar	2.5
Costa Rica	Colon	1.1
Guatemala	Quetzal	0.8
Nicaragua	Cordoba	0.7
Panama	U.S. dollar	0.7

We estimate that a majority of our consolidated costs and expenses are denominated in Mexican pesos for Mexican subsidiaries and in the aforementioned currencies for the foreign subsidiaries, which are all subsidiaries of Coca-Cola FEMSA. Substantially all of our costs and expenses denominated in a foreign currency, other than the functional currency of each country in which we operate, are denominated in U.S. dollars. As of December 31, 2005, 79.2% of our long-term indebtedness was denominated in Mexican pesos, 19.6% was denominated in U.S. dollars, 1.1% was denominated in Colombian pesos and the remaining 0.1% in Guatemalan quetzals. We also have short-term indebtedness which consists of revolving bank loans. Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency denominated operating costs and expenses, and the debt service obligations with respect to our foreign currency denominated indebtedness. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses as the Mexican peso value of our foreign currency denominated long-term indebtedness is increased.

Our exposure to market risk associated with changes in foreign currency exchange rates relates primarily to U.S. dollar-denominated debt obligations as shown in the interest risk table above. We occasionally utilize financial derivative instruments to hedge our exposure to the U.S. dollar relative to the Mexican peso and other currencies.

As of December 31, 2005, we did not have any forward agreements that meet the hedging criteria for accounting purposes, to hedge our operations denominated in U.S. dollars. During 2005 and 2004, we had forward agreements for the purchase of U.S. dollars that meet hedging accounting criteria, in a notional amount of US$250 million, to hedge the foreign exchange rate risk related to our acquisition of a 30% interest in FEMSA Cerveza. These contracts were paid during 2005, and we recognized a foreign exchange loss of Ps. 156 million.

Additionally, as of December 31, 2005, we had certain forward contracts that did not meet the hedging criteria for accounting purposes; consequently, changes in the fair value of Ps. 4 million were recorded in the income statement. These contracts, which have a notional amount of Ps. 750 million, matured in May 2006. The fair value of the foreign currency forward contracts is estimated based on the quoted market price of each agreement at year end assuming the same maturity dates originally contracted.

As of December 31, 2005, we did not have any forward agreements for the purchase of euros. During 2005 and 2004 we had forward agreements to buy euros to hedge the exchange risk between the U.S. dollar and the euro for the purchase of equipment, resulting in the recognition of a foreign exchange loss of Ps. 9 million and Ps. 18 million, respectively.

As of December 31, 2005, we did not have any call option agreements to buy U.S. dollars. We contracted cross currency swaps to manage the interest rate and foreign exchange risks associated with our borrowings denominated in U.S. dollars. The aggregate notional amounts are Ps. 1,500 million with maturity dates in 2009 and 2010. The fair value is estimated based on quoted market exchange rates and interest rates to terminate the contracts at December 31, 2005, which represented a loss of Ps. 175 million. During 2005, the net effect of expired contracts is included in interest expense and amounted to Ps. 125 million.

As of December 31, 2005, certain cross currency swap instruments do not meet the hedging criteria for accounting purposes; consequently changes in the estimated fair value were recorded in the income statement. These contracts with a notional amount of Ps. 3,822 million mature in September 2008 and September 2009 and the fair value represented a loss of Ps. 127 million.

	Forward Agreements			
	At December 31, 2005		At December 31, 2004	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(in millions of U.S. dollars and millions of constant Mexican pesos)			
U.S. dollar forwards:				
To cover Mexican peso risk	$	Ps.	Ps. 250	Ps. 3
Weighted average foreign exchange rate Mexican peso per U.S. dollar:				
Contracted			11.3110	
Quoted market			11.1460	
Cross currency and interest rate swap:				
To cover U.S. dollar risk	$ 140	Ps. (175)	$ 140	Ps. 1
Weighted average foreign exchange rate Mexican peso per U.S. dollar:				
Contracted	11.0049		11.1680	
Quoted market	10.7109		11.1460	

As of December 31, 2005, we had determined that our leasing contracts denominated in U.S. dollars host an embedded derivative financial instrument. At December 31, 2005, the fair value of these contracts represented Ps. 119 million, which is recorded in the income statement as a foreign exchange gain.

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the Mexican peso relative to the U.S. dollar occurring on December 31, 2005, would have resulted in an increase in our net consolidated integral result of financing expense of approximately Ps. 439 million over a 12-month period of 2006, reflecting higher interest expense and foreign exchange gain generated by the cash balances held in U.S. dollars as of that date, net of the loss based on our U.S. dollar-denominated indebtedness at December 31, 2005. However, this result does not take into account any gain on monetary position that would be expected to result from an increase in the inflation rate generated by a devaluation of the Mexican peso relative to the U.S. dollar, which gain on monetary position would reduce the consolidated net integral cost of financing.

As of March 31, 2006, the exchange rates relative to the U.S. dollar of all the countries in which we operate as well as their devaluation/revaluation effect compared to December 31, 2005, are as follows:

Country	Currency	Exchange Rate at March 31, 2006	(Devaluation) / Revaluation
Mexico	Mexican peso	10.9510	(2.2)%
Brazil	Real	2.1724	7.2%
Venezuela	Bolivar	2,150.0000	0.0%
Colombia	Colombian peso	2,289.9800	(0.3)%
Argentina	Argentine peso	3.0820	(1.6)%
Costa Rica	Colon	506.0300	(1.7)%
Guatemala	Quetzal	7.6147	(0.1)%
Nicaragua	Cordoba	17.3531	(1.2)%
Panama	U.S. dollar	1.0000	

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies of all the countries in which we operate, relative to the U.S. dollar occurring on December 31, 2005, would produce a reduction in stockholders equity as follows:

Country	Currency		Reduction in Stockholders Equity (in millions of Mexican pesos)
Mexico	Mexican peso	Ps.	1,474
Argentina	Argentine peso		46
Brazil	Real		262
Venezuela	Bolivar		255
Colombia	Colombian peso		575
Costa Rica	Colon		203
Guatemala	Quetzal		35
Nicaragua	Cordoba		68
Panama	U.S. dollar		

Equity Risk

During 2002, one of Coca-Colas FEMSA s subsidiaries entered into an equity forward sale contract that was renewed in March and June of 2004 and was finally settled on September 18, 2004. The contract covered 92% of the Molson shares received from the sale of Kaiser, with a notional amount of approximately Ps. 221 million. In 2004 and 2003, Coca-Cola FEMSA recorded a loss on this instrument of Ps. 81 million and a gain of Ps. 20 million, respectively, which resulted from the difference between the strike price of the forward contract and the market value of the shares.

As of December 31, 2005, we did not have any equity forward agreements.

Commodity Price Risk

We entered into various derivative contracts to hedge the cost of certain raw materials. The result of our commodity price contracts was a loss of Ps. 27 million and a gain of Ps. 79 million as of December 31, 2005 and 2004, respectively, which were recorded in the results of operations of the year. The fair value is estimated based on the quoted market prices to terminate the contracts at the reporting date. As of December 31, 2005, we had various derivative instruments contracts with maturity dates in 2006, notional amounts of Ps. 866 million and a fair value loss of Ps. 141 million.

ITEMS 12-14. NOT APPLICABLE

ITEM 15. CONTROLS AND PROCEDURES

(a) We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2005. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) There has been no change in our internal control over financial reporting during 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics, within the meaning of this Item 16B of Form 20-F. Our code of ethics applies to our chief executive officer, chief financial officer, chief accounting officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at www.femsa.com/ethics.asp. If we amend the provisions of our code of ethics that apply to our chief executive officer, chief financial officer, chief accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at the same address.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit and Non-Audit Fees

The following table summarizes the aggregate fees billed to us by Galaz, Yamazaki, Ruiz Urquiza, S.C., Member of Deloitte Touche Tohmatsu, and its affiliates as principal auditors, which we collectively refer to as Deloitte, during the fiscal years ended December 31, 2005 and 2004:

	Year ended December 31,	
	2005	**2004**
	(in millions of Mexican pesos)	
Audit fees	Ps. 64	Ps. 57
Audit-related fees	8	13
Tax fees	6	6
Total	Ps. 78	Ps. 76

Audit fees. Audit fees in the above table are the aggregate fees billed by Deloitte in connection with the audit of our annual financial statements, the review of our quarterly financial statements and statutory and regulatory audits and the preparation for compliance by FEMSA with Section 404 of the Sarbanes-Oxley Act of 2002.

Audit-related fees. Audit-related fees in the above table for the year ended December 31, 2005 are the aggregate fees billed by Deloitte for financial accounting and reporting-related matters relating to the review of the prospectus for the equity offering.

Tax fees. Tax fees in the above table are fees billed by Deloitte for services based upon existing facts and prior transactions in order to document, compute, and obtain government approval for amounts included in tax filings such as value-added tax return assistance, transfer pricing documentation and requests for technical advice from taxing authorities.

Audit Committee Pre-Approval Policies and Procedures

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

ITEM 16D. NOT APPLICABLE

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

We did not purchase any of our equity securities in 2005. The following table presents purchases by trusts that we administer in connection with our stock incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See Item 6. Directors, Senior Management and Employees Stock Incentive Plan and EVA Stock Incentive Plan.

Purchases of Equity Securities

Purchase Date	Total Number of BD Units Purchased	Average Price Paid per BD Units	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate U.S. Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
March 4, 2005	771,910	Ps. 65.15		
March 22, 2005	161,265	Ps. 61.67		
March 23, 2006	687,610	Ps. 95.42		
	2,446,195	Ps. 68.02		

ITEM 17. NOT APPLICABLE

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-63, incorporated herein by reference.

ITEM 19 EXHIBITS

1.1 Bylaws (estatutos sociales) of FEMSA (formerly known as Valores Industriales, S.A.), together with an English translation (incorporated by reference to FEMSA s Form 20-F filed on April 8, 2004 (File No. 333-08752)).

2.1 Deposit Agreement, among FEMSA, The Bank of New York, and all owners and holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to FEMSA s registration statement on Form F-6 filed on January 30, 2004 (File No. 333-112342)).

2.2 Specimen certificate representing a BD Unit, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, together with an English translation (incorporated by reference to FEMSA s registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).

2.3 Indenture Agreement, dated as of October 28, 1996, between Coca-Cola FEMSA and Citibank, N.A., as trustee, (incorporated by reference to FEMSA s registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).

2.4 Term Loan Agreement, dated April 23, 2003, among Coca-Cola FEMSA, JPMorgan Chase Bank, Banco J.P. Morgan, S.A., Morgan Stanley Senior Funding, Inc., J.P. Morgan Securities Inc., Banco Nacional de México, S.A., BBVA Bancomer and ING Bank, N.V. (incorporated by reference to Coca-Cola FEMSA s annual report on Form 20-F filed on June 27, 2003 (File No. 1-2260)).

2.5 Indenture, dated July 11, 1997, by and between Corporación Interamericana de Bebidas, S.A. de C.V. and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.1 of Panamco s Registration Statement on Form F-4, (File No. 333-7918)).

2.6 First Supplemental Indenture, dated October 15, 2003, between Corporación Interamericana de Bebidas, S.A. de C.V., as Issuer, Coca-Cola FEMSA, as Guarantor, and JPMorgan Chase Bank, as Trustee (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-2260)).

2.7 Second Supplemental Indenture, dated November 19, 2003, between Corporación Interamericana de Bebidas, S.A. de C.V., as Issuer, Coca-Cola FEMSA, as Guarantor, and JPMorgan Chase Bank, as Trustee (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-2260)).

2.8 Credit Agreement, dated as of September 27, 2004, among FEMSA Comercio, as borrower, Cadena Comercial Oxxo, S.A. de C.V., Impulsora de Mercados de Mexico, S.A. de C.V. and Oxxo Express, S.A. de C.V., as guarantors, the financial institutions party thereto, as lenders, BBVA Bancomer, S.A., as administrative agent, and BBVA Securities Inc, as mandated lead arranger (incorporated by reference to FEMSA s Annual Report on Form 20-F filed on April 8, 2005 (File No. 333-08752)).

3.1 Amended Voting Trust Agreement among certain principal shareholders of FEMSA together with an English translation (incorporated by reference to FEMSA s Schedule 13D as amended filed on August 11, 2005 (File No. 005-54705)).

4.1 Amended and Restated Shareholder s Agreement, dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company and Inmex (incorporated by reference to Coca-Cola FEMSA s annual report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).

4.2 Amendment, dated May 6, 2003, to Shareholders Agreement as amended and restated on July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Coca-Cola FEMSA s annual report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).

4.3 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

4.4	Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the valley of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA s Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
4.5	Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
4.6	Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
4.7	Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
4.8	Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
4.9	Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
4.10	Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
4.11	Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
4.12	Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA s Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
4.13	Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
4.21	Bottler Agreement, dated August 16, 1996, and Letter of Renewal, dated February 9, 2001, between The Coca-Cola Company and Embotelladora Coca-Cola y Hit de Venezuela, S.A. with respect to operations in Venezuela (with English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
4.22	Bottler Agreement, dated August 16, 1996, and Letter of Renewal, dated February 9, 2001, between Advantage Investments, Inc. and Embotelladora Coca-Cola y Hit de Venezuela, S.A. with respect to operations in Venezuela (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

4.23 Supply Agreement, dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques (incorporated by reference to FEMSA s registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).

4.24 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).

4.25 Bottler Agreement and Side Letter dated June 1,2005, between Panamco Baijo, S.A. de C.V., and the Coca-Cola Company with respect to operations in Baijo, Mexico (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).

4.26 Letter of Renewal, dated December 12, 2005, between The Coca-Cola Company and Embotelladora Central, S.A, with respect to operations in Guatemala (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).

4.27 Letter of Renewal, dated January 4, 2006, between The Coca-Cola Company and Coca-Cola de Panamá, Compañia Embotelladora, S.A., with respect to operations in Panama (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).

4.28 Manufacturing Agreement, dated April 16, 1999, between Coca-Cola Industrias Ltda., SPAL Industria Brasileira de Bebidas, S.A. and The Coca-Cola Company with respect to operations in São Paulo, Brazil (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

4.29 Manufacturing Agreement, dated April 16, 1999, between Coca-Cola Industrias Ltda., SPAL Industria Brasileira de Bebidas, S.A. and The Coca-Cola Company with respect to operations in Campinas, Brazil (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

4.30 Manufacturing Agreement, dated April 16, 1999, between Coca-Cola Industrias Ltda., SPAL Industria Brasileira de Bebidas, S.A., and The Coca-Cola Company with respect to operations in Campo Grande, Brazil (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).

4.31 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to FEMSA s Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).

4.32 Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administracion de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Panamco s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

4.33 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

4.34 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

4.35 Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).

4.36 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).

4.37 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio S.A. de C.V. (with English translation) (incorporated by reference to Panamco s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

4.38 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Panamco s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

4.39 Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Panamco s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).

4.40 Letter of Renewal, dated December 12, 2005, between The Coca-Cola Company and Industria Nacional de Gaseosas S.A., with respect to operations in Colombia (English translation) (incorporated by reference to Coca-Cola FEMSA s Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).

4.41 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.40 to FEMSA s Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).

4.42 Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA s Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).*

8.1 Significant Subsidiaries.

10.1 The Coca-Cola Company Memorandum, to Steve Heyer from José Antonio Fernández, dated December 22, 2002 (incorporated by reference to FEMSA s registration statement on Form F-3 filed on September 20, 2004 (File No. 333-117795)).

12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2006.

12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated June 29, 2006.

13.1 Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated June 29, 2006.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 29, 2006

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

By: /s/ JAVIER ASTABURUAGA SANJINES
Name: Javier Astaburuaga Sanjines
Title: Executive Vice-President of Finance and Strategic Development

FOMENTO ECONÓMICO, S.A. DE C.V. AND SUBSIDIARIES

MONTERREY, N.L., MEXICO

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Fomento Económico Mexicano, S. A. de C. V.:

We have audited the accompanying consolidated balance sheets of Fomento Económico Mexicano, S. A. de C. V. (a Mexican corporation) and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders equity and changes in financial position for each of the three years in the period ended December 31, 2005, all expressed in millions of Mexican pesos of purchasing power as of December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the following subsidiaries of the Company: 1) FEMSA Comercio, S. A. de C. V. and subsidiaries, FEMSA Empaques, S. A. de C. V. and subsidiaries, Quimiproductos, S.A. de C.V. and Servicios Aéreos Regiomontanos, S. A. de C. V. for each of the three years in the period ended December 31, 2005; 2) the subsidiaries spun off from FEMSA Empaques, S. A. de C. V., as mentioned in Note 1, for each of the two years in the period ended December 31, 2004; and 3) FEMSA Logística, S. A. de C. V. and subsidiaries, Centro de Servicios Diesel, S. A. de C. V., Operadora Logística CCM, S. A. de C. V., Servicios Logísticos CCM, S. A. de C. V., and Centro de Servicios Compartidos, S. A. de C. V. for the year ended December 31, 2005. The subsidiaries we did not audit represented approximately 10% and 14% of the consolidated total assets as of December 31, 2005 and 2004, respectively, and 28%, 27% and 26% of the consolidated total revenues for each of the three years in the period ended December 31, 2005, respectively. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Fomento Económico Mexicano, S. A. de C. V. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations, changes in their stockholders equity and changes in their financial position for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in Mexico.

Effective January 1, 2005, the Company adopted the provisions of certain new or revised accounting standards resulting in the following changes in accounting:

As mentioned in Note 7 q), the initial effect of adopting Bulletin C-10, Derivative Financial Instruments and Hedging Activities , resulted in the recognition of an asset for derivative financial instruments of Ps. 80 million, net of taxes of which Ps. 46 million was recorded in the income statement as a change in accounting principle and Ps. 34 million was recorded in other comprehensive income.

As mentioned in Note 7 i), the Company discontinued amortizing goodwill as of January 1, 2005 and now performs an annual impairment test in accordance with Bulletin B-7, Business Acquisitions . The amount of goodwill amortization in 2004 and 2003 was Ps. 14 million and Ps. 15 million, respectively.

As mentioned in Note 7 l), revised Bulletin D-3, Labor Obligations , requires the recognition of a labor obligation for severance indemnities, other than restructuring. The liability as a result of adopting this bulletin recorded by the Company was Ps. 394 million and the additional expense recorded in the income statement was Ps. 12 million.

As mentioned in Note 4, Coca-Cola FEMSA, S. A. de C. V. acquired Panamerican Beverages, Inc. on May 6, 2003, incorporating its results of operations since the date of acquisition, as a result of which the consolidated statements of income and changes in financial position for the years ended December 31, 2005, 2004 and 2003, are not comparable.

Accounting principles generally accepted in Mexico vary in certain significant respects from accounting principles general and accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 2005, and the determination of stockholders equity as of December 31, 2005 and 2004, to the extent summarized in Note 28.

Our audits also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 5. The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

Galaz, Yamazaki, Ruiz Urquiza, S. C.

Member of Deloitte Touche Tohmatsu

/s/ Gabriel González Martínez

C. P. C. Gabriel González Martínez

Monterrey, N.L., Mexico

February 15, 2006

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

MONTERREY, N.L., MEXICO

Consolidated Balance Sheets

At December 31, 2005 and 2004.

Amounts expressed in millions of U.S. dollars ($) and in millions of constant Mexican pesos (Ps.)

as of December 31, 2005.

	2005		2004
ASSETS			
Current Assets:			
Cash and cash equivalents	**$ 766**	**Ps. 8,140**	Ps. 7111
Accounts receivable	**490**	**5,202**	4,712
Inventories	**724**	**7,696**	7,777
Recoverable taxes	**80**	**849**	1,084
Other current assets	**80**	**853**	579
Total current assets	**2,140**	**22,740**	21,263
Investments in shares	**71**	**758**	793
Property, plant and equipment	**4,209**	**44,730**	46,292
Intangible assets	**4,605**	**48,937**	48,456
Deferred income tax asset	**116**	**1,230**	1,503
Other assets	**715**	**7,603**	6,768
TOTAL ASSETS	**$ 11,856**	**Ps. 125,998**	Ps. 125,075
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Bank loans	**$ 62**	**Ps. 663**	Ps. 6,186
Interest payable	**38**	**401**	407
Current maturities of long-term debt	**397**	**4,220**	3,665
Suppliers	**845**	**8,983**	8,180
Taxes payable	**189**	**2,009**	2,724
Accounts payable, accrued expenses and other liabilities	**336**	**3,563**	3,231
Total current liabilities	**1,867**	**19,839**	24,393
Long-Term Liabilities:			
Bank loans and notes payable	**2,798**	**29,732**	37,502
Deferred income tax liability	**308**	**3,275**	4,300
Labor liabilities	**230**	**2,447**	2,014
Other liabilities	**330**	**3,513**	2,988
Total long-term liabilities	**3,666**	**38,967**	46,804
Total liabilities	**5,533**	**58,806**	71,197
Stockholders Equity:			
Minority interest in consolidated subsidiaries	**1,820**	**19,341**	17,218

Majority interest:			
Capital stock	**466**	**4,953**	4,612
Additional paid-in capital	**1,939**	**20,606**	13,110
Retained earnings from prior years	**2,351**	**24,983**	19,633
Net income	**522**	**5,549**	6,027
Cumulative other comprehensive loss	**(775)**	**(8,240)**	(6,722)
Majority interest	**4,503**	**47,851**	36,660
Total stockholders equity	**6,323**	**67,192**	53,878
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 11,856**	**Ps. 125,998**	Ps. 125,075

The accompanying notes are an integral part of these consolidated balance sheets.

Monterrey, N.L., Mexico, February 15, 2006.

/s/ José Antonio Fernández Carbajal

José Antonio Fernández Carbajal
Chief Executive Officer

/s/ Javier Astaburuaga Sanjines

Javier Astaburuaga Sanjines
Chief Financial Officer

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

MONTERREY, N.L., MEXICO

Consolidated Income Statements

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars ($) and in millions of constant Mexican pesos (Ps.)

as of December 31, 2005, except per share data.

		2005	2004	2003
Net sales	**$ 9,884**	**Ps. 105,045**	Ps. 96,201	Ps. 82,041
Other operating revenues	**51**	**537**	632	455
Total revenues	**9,935**	**105,582**	96,833	82,496
Cost of sales	**5,288**	**56,195**	51,222	42,700
Gross profit	**4,647**	**49,387**	45,611	39,796
Operating expenses:				
Administrative	**667**	**7,085**	6,873	5,905
Selling	**2,513**	**26,715**	24,502	20,818
	3,180	**33,800**	31,375	26,723
Income from operations	**1,467**	**15,587**	14,236	13,073
Integral result of financing:				
Interest expense	**(425)**	**(4,520)**	(3,894)	(2,679)
Interest income	**60**	**638**	572	770
Foreign exchange gain (loss)	**34**	**357**	(14)	(2,752)
Gain on monetary position	**104**	**1,117**	2,004	1,038
	(227)	**(2,408)**	(1,332)	(3,623)
Other expenses, net	**(45)**	**(483)**	(813)	(598)
Income before taxes and employee profit sharing	**1,195**	**12,696**	12,091	8,852
Taxes and employee profit sharing	**431**	**4,584**	2,533	3,785
Income before change in accounting principle	**764**	**8,112**	9,558	5,067
Change in accounting principle, net of taxes	**4**	**46**		
Consolidated net income	**$ 768**	**Ps. 8,158**	Ps. 9,558	Ps. 5,067
Net majority income	**522**	**5,549**	6,027	3,408
Net minority income	**246**	**2,609**	3,531	1,659
Consolidated net income	**$ 768**	**Ps. 8,158**	Ps. 9,558	Ps. 5,067
Net majority income (U.S. dollars and constant Mexican pesos):				
Per Series B share:				
Before change in accounting principle	**$ 0.08**	**Ps. 0.86**	Ps. 1.01	Ps. 0.57

Cumulative effect of change in accounting principle				**0.01**				
Net majority income		**0.08**		**0.87**		1.01		0.57
Per Series D share:								
Before change in accounting principle	**$**	**0.10**	**Ps.**	**1.08**	Ps.	1.27	Ps.	0.72
Cumulative effect of change in accounting principle				**0.01**				
Net majority income		**0.10**		**1.09**		1.27		0.72

The accompanying notes are an integral part of these consolidated income statements.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

MONTERREY, N.L., MEXICO

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars ($) and in millions of constant

Mexican pesos (Ps.) as of December 31, 2005.

	2005		2004	2003
Resources Generated by (Used in) Operating Activities:				
Consolidated net income	**$ 768**	**Ps. 8,158**	Ps. 9,558	Ps. 5,067
Depreciation	**390**	**4,147**	3,882	3,435
Amortization and other	**240**	**2,555**	2,566	2,183
Impairment of long-lived assets	**5**	**55**	503	859
Deferred income tax	**(27)**	**(288)**	(1,006)	497
	1,376	**14,627**	15,503	12,041
Working capital:				
Accounts receivable	**(36)**	**(378)**	(110)	419
Inventories	**(32)**	**(344)**	(1,270)	(1,002)
Recoverable taxes, net	**(45)**	**(481)**	1,005	(670)
Prepaid expenses	**(7)**	**(76)**	95	136
Suppliers and other liabilities	**70**	**739**	908	(1,141)
Interest payable	**(1)**	**(6)**	(34)	122
Labor liabilities	**(33)**	**(353)**	(260)	(118)
Net resources generated by operating activities	**1,292**	**13,728**	15,837	9,787
Resources Generated by (Used in) Investing Activities:				
Investments in shares	**2**	**20**	175	
Property, plant and equipment	**(343)**	**(3,641)**	(3,507)	(4,393)
Intangible assets	**(37)**	**(395)**	(539)	(550)
Other assets	**(232)**	**(2,469)**	(3,101)	(2,513)
Acquisition of FEMSA Cerveza minority interest			(15,242)	
Acquisition of Panamerican Beverages, Inc.				(32,228)
Net resources used in investing activities	**(610)**	**(6,485)**	(22,214)	(39,684)
Resources Generated by (Used in) Financing Activities:				
Bank loans paid	**(1,271)**	**(13,504)**	(18,045)	(15,734)
Bank loans acquired	**180**	**1,909**	25,100	32,930
Amortization in real terms of long-term liabilities	**(121)**	**(1,280)**	(1,943)	(1,166)
Increase in capital stock	**737**	**7,837**		
Dividends declared and paid	**(96)**	**(1,022)**	(871)	(1,164)
Cumulative translation adjustment	**(12)**	**(127)**	(189)	(503)
Capital contribution by Coca-Cola FEMSA s minority interest			609	7,654
Other liabilities	**(2)**	**(27)**	301	(48)
Net resources generated by (used in) financing activities	**(585)**	**(6,214)**	4,962	21,969

Cash and cash equivalents:				
Net increase (decrease)	**97**	**1,029**	(1,415)	(7,928)
Initial balance	**669**	**7,111**	8,526	16,454
Ending balance	**$ 766**	**Ps. 8,140**	Ps. 7,111	Ps. 8,526

The accompanying notes are an integral part of these consolidated statements of changes in financial position.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

MONTERREY, N.L., MEXICO

Consolidated Statements of Changes in Stockholders Equity

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of constant Mexican pesos (Ps.) as of December 31, 2005.

	Capital Stock	Additional Paid-in Capital	Retained Earnings from Prior Years	Net Income	Cumulative Other Comprehensive Income (Loss)	Majority Interest	Minority Interest in Consolidated Subsidiaries	Total Stockholders Equity
Balances at December 31, 2002	**Ps. 4,612**	**Ps. 11,247**	**Ps. 14,034**	**Ps. 3,203**	**Ps. (6,978)**	**Ps. 26,118**	**Ps. 11,170**	**Ps. 37,288**
Transfer of prior year net income			3,203	(3,203)				
Dividends declared and paid			(441)			(441)	(723)	(1,164)
Capital contribution by The Coca-Cola Company		1,863				1,863	5,791	7,654
Comprehensive income				3,408	239	3,647	2,948	6,595
Balances at December 31, 2003	**4,612**	**13,110**	**16,796**	**3,408**	**(6,739)**	**31,187**	**19,186**	**50,373**
Transfer of prior year net income			3,408	(3,408)				
Dividends declared and paid			(571)			(571)	(300)	(871)
Capital contribution by Coca-Cola FEMSA s minority							609	609
Acquisition of FEMSA Cerveza minority interest							(6,135)	(6,135)
Comprehensive income				6,027	17	6,044	3,858	9,902
Balances at December 31, 2004	**4,612**	**13,110**	**19,633**	**6,027**	**(6,722)**	**36,660**	**17,218**	**53,878**
Transfer of prior year net income			6,027	(6,027)				
Dividends declared and paid			(677)			(677)	(345)	(1,022)
Increase in capital stock	341	7,496				7,837		7,837
Comprehensive income				5,549	(1,518)	4,031	2,468	6,499
Balances at December 31, 2005	**Ps. 4,953**	**Ps. 20,606**	**Ps. 24,983**	**Ps. 5,549**	**Ps. (8,240)**	**Ps. 47,851**	**Ps. 19,341**	**Ps. 67,192**

The accompanying notes are an integral part of these consolidated statements of changes in stockholders equity.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars ($) and in millions of

constant Mexican pesos (Ps.) as of December 31, 2005.

Note 1. Activities of the Company.

Fomento Económico Mexicano, S.A. de C.V. (FEMSA) is a Mexican holding company. The principal activities of FEMSA and its subsidiaries (the Company), as an economic unit, are carried out by operating subsidiaries and grouped under direct and indirect holding company subsidiaries (the Subholding Companies) of FEMSA. The following is a description of such activities, together with the ownership interest in each Subholding Company:

Subholding Company	% Ownership	Activities
Coca-Cola FEMSA, S.A. de C.V. and Subsidiaries (Coca-Cola FEMSA)	45.7% (53.6% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. The Coca-Cola Company indirectly owns 39.6% of Coca-Cola FEMSA s capital stock. In addition, shares representing 14.7% of Coca-Cola FEMSA s capital stock are listed on the Bolsa Mexicana de Valores, S.A. de C.V. (BMV) and The New York Stock Exchange, Inc. (NYSE).
FEMSA Cerveza, S.A. de C.V. and Subsidiaries (FEMSA Cerveza)	100%	Production, distribution and marketing of beer through its principal operating subsidiary, Cervecería Cuauhtémoc Moctezuma, S.A. de C.V., which operates six breweries throughout Mexico and produces and distributes 15 different brands of beer, of which the five most important are: Tecate, Sol, Carta Blanca, Superior and Indio.
FEMSA Comercio, S.A. de C.V. and Subsidiaries (FEMSA Comercio)	100%	Operation of a chain of convenience stores under the trade name Oxxo.
Other Companies	100%	Companies engaged in the production and distribution of packaging materials primarily to the beverage industry, including products such as labels, plastic cases, coolers and commercial refrigeration equipment; as well as, transportation logistic and maintenance services to FEMSA s subsidiaries and to third parties.

On December 20, 2004 as a result of a spin-off, the Subholding Companies engaged in the production of aluminum beverage cans, caps and glass beverage bottles are now consolidated in FEMSA Cerveza. Therefore, the information relating to FEMSA Cerveza for the year ended December 31, 2003 has been reclassified in order to make it comparable to the presentation for 2005 and 2004.

Note 2. Equity Offering

On May 25, 2005, the Company completed an equity offering, obtaining net proceeds of Ps. 7,837, which were used to repay the bridge loans incurred in connection with the acquisition of a 30% equity interest in FEMSA Cerveza (see Note 3) and to repay other indebtedness.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars ($) and in millions of

constant Mexican pesos (Ps.) as of December 31, 2005.

As a result of the equity offering, capital stock increased Ps. 341, represented by 666,400,000 shares, equivalent to 80,500,000 BD units and 52,780,000 B units; and additional paid-in capital increased Ps. 7,496, which was recorded net of the direct transaction costs and taxes of Ps. 20.

Note 3. Acquisition of FEMSA Cerveza Minority Interest.

On August 31, 2004, the Company consummated a series of transactions with Interbrew S.A. (Interbrew), Labatt Brewing Company Limited (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. As a result of these transactions FEMSA indirectly owns 100% of FEMSA Cerveza; and Interbrew indirectly owns 100% of Labatt USA LLC and Latrobe Brewing Company LLC (together, Labatt USA), its distribution subsidiary in the United States of America.

The Company paid Interbrew Ps. 15,014 and incurred transaction costs of Ps. 228, which consisted of financial, advisory and legal fees, capitalized as adjustments to the purchase price.

The acquisition was accounted for by the purchase method and the Company identified trademarks and distribution rights as intangible assets with indefinite lives, for a total amount of Ps. 9,464. No goodwill was recognized as a result of the acquisition.

Note 4. Acquisition of Panamerican Beverages, Inc.

On May 6, 2003, Coca-Cola FEMSA acquired 100% of the outstanding stock of Panamerican Beverages, Inc. (Panamco) for Ps. 32,084. As part of the acquisition, the Company assumed Ps. 9,875 of net debt and incurred transaction costs of Ps. 424, which consisted 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, Colombia, Venezuela and Brazil, along with bottled water and other beverage in some of these territories and beer in Brazil.

The transaction was financed with an equity contribution from FEMSA of Ps. 3,020, an exchange of The Coca-Cola Company s equity interests in Panamco valued at Ps. 7,654 for new shares of Coca-Cola FEMSA, cash on hand of Ps. 3,066 and additional indebtedness of Ps. 18,768.

Coca-Cola FEMSA s capital was increased through an issuance of 421.374 million shares, of which 117.328 million shares were subscribed by FEMSA and 304.046 million shares were subscribed by The Coca-Cola Company at a price of 2.216 U.S. dollars per share. The Coca-Cola Company s contribution to Coca-Cola FEMSA was greater than FEMSA s contribution. As a result FEMSA s ownership of its outstanding capital stock in Coca-Cola FEMSA decreased from 51.0% to 45.7% and ownership decreased 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.

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The results of Panamco s operations were included in the consolidated financial statements since the date of acquisition, as a result of which the consolidated income statements and the consolidated statements of changes in financial position for the years ended December 31, 2005 and 2004 are not comparable with those for the year ended December 31, 2003.

The 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. 37,153 included in the 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 the Company considered non-strategic as well as the elimination of certain intangible assets that were generated from previous acquisitions, made by Panamco.

Note 5. Basis of Presentation.

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in Mexico (Mexican GAAP), which differ in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP), as further explained in Note 27. A reconciliation from Mexican GAAP to U.S. GAAP is included in Note 28.

The consolidated financial statements are stated in millions of Mexican pesos (Ps.). The translation of Mexican pesos into U.S. dollars ($) are included solely for the convenience of the reader, using the noon buying exchange rate published by Bank of New York of 10.6275 pesos per U.S. dollar.

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

Note 6. Foreign Subsidiary Incorporation.

The accounting records of foreign subsidiaries are maintained in the currency of the country where they are located and in accordance with accounting principles generally accepted in each country. For incorporation into the FEMSA consolidated financial statements, each foreign subsidiary s individual financial statements are adjusted to Mexican GAAP and restated to the purchasing power of the local currency applying inflation factors of the country of origin and are subsequently translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

The variation in the net investment in foreign subsidiaries generated by exchange rate fluctuations is included in the cumulative translation adjustment and is recorded directly in stockholders equity as part of other comprehensive income.

The accounting treatment for the integral result of financing when the Company designates a net investment in an acquired foreign subsidiary as an economic hedge to finance its acquisition, is as follows:

The foreign exchange gain or loss is recorded as part of the cumulative translation adjustment to the extent the net investment in the foreign subsidiary covers the debt, net of taxes. The foreign exchange gain or loss associated with any unhedged portion of such debt is recorded in the integral result of financing; and

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The monetary position result is computed using the inflation factors of the country in which the acquired subsidiary is located to the extent the net investment in that subsidiary covers the debt outstanding. The monetary position result corresponding to the unhedged portion of such debt is calculated using the inflation factors of the country of the company that enters into the financing. The total effect is recorded in the integral result of financing.

As of the date of these consolidated financial statements, the Company has not designated any investment in a foreign subsidiary as an economic hedge.

The monetary position result and exchange gain or loss generated by foreign subsidiaries associated with intercompany financing foreign currency denominated balances that are recorded in the cumulative translation adjustment in stockholders equity as part of other comprehensive income are considered a long-term-investment since settlement is not planned or anticipated in the foreseeable future due to such financing balances.

In February 2003, the Venezuelan government fixed the exchange rate of 1,600 Venezuelan bolivars per U.S. dollar. Due to the uncertainties regarding the availability of U.S. dollars at the official rate, the Company used the last available market-closing rate of 1,853 bolivars per U.S. dollar to translate the financial statements for its Venezuelan subsidiary.

Note 7. Significant Accounting Policies.

The Company s accounting policies are in accordance with Mexican GAAP, which require that the Company s management make certain estimates and use certain assumptions to determine the valuation of various items included in the consolidated financial statements. The Company s management believes that the estimates and assumptions used were appropriate as of the date of these consolidated financial statements.

The significant accounting policies are as follows:

a) Recognition of the Effects of Inflation:

The recognition of the effects of inflation in the financial information consists of:

Restating non-monetary assets such as inventories and fixed assets, including related costs and expenses when such assets are consumed or depreciated;

Restating capital stock, additional paid-in capital and retained earnings by the amount necessary to maintain the purchasing power equivalent in Mexican pesos on the dates such capital was contributed or income generated, through the use of the appropriate inflation factors;

Including in stockholders equity the cumulative effect of holding non-monetary assets, which is the net difference between changes in the replacement cost of non-monetary assets and adjustments based upon the inflation factors; and

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

The Company restates its consolidated financial statements in currency of constant purchasing power by applying inflation factors of the country of origin and the exchange rate in effect at the date of the most recent balance sheet presented.

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b) Cash and Cash Equivalents:

Cash consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed-rate investments with brokerage houses valued at the quoted market prices with original maturities of three months or less.

As of December 31, 2005, the Company restricted cash of approximately Ps. 71 (denominated in Venezuelan bolivars) which was pledged as collateral of account payable suppliers.

c) Inventories and Cost of Sales:

The value of inventories is adjusted to replacement cost, without exceeding market value. Advances to suppliers to purchase raw materials are included in the inventory account and are restated by applying inflation factors, considering their average age.

Cost of sales is determined based on replacement cost at the time of sale. Cost of sales includes expenses related to raw materials used in the production process, labor (wages and other benefits), depreciation of production facilities and equipment and other costs including fuel, electricity, breakage of returnable bottles in the production process, equipment maintenance, inspection and inter and intra-plant transfer costs.

d) Other Current Assets:

Other current assets are comprised of payments for services that will be received over the next 12 months and the fair market value of derivative financial instruments with maturity dates of less than one year (see Note 7 q).

Prepaid expenses are recorded at historical cost and are recognized in the income statement when the services or benefits are received. Prepaid expenses principally consist of advertising, promotional and leasing expenses.

Advertising costs consist of television and radio advertising airtime paid in advance, which are generally amortized over a 12-month period based on the transmission of the television and radio spots. The related production costs are recognized in results of operations the first time the advertising is transmitted.

Promotional costs are expensed as incurred, except for those promotional costs related to the launching of new products or presentations. These costs are recorded as prepaid expenses and amortized over the period during which they are estimated to increase sales of the related products or container presentations to normal operating levels, which is generally one year.

e) Bottles and Cases:

Returnable bottles and cases are recorded at acquisition cost and restated to their replacement cost. FEMSA Cerveza classifies bottles and cases as inventories, and Coca-Cola FEMSA classifies them as property, plant and equipment.

There are two types of returnable bottles and cases:

Those that are in the Company s control in its facilities, which are referred to as bottles and cases in plant and distribution centers; and

Those that have been placed in the hands of customers, which are referred to as bottles and cases in the market.

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For financial reporting purposes, breakage of returnable bottles and cases in plant and distribution centers is recorded as an expense as it is incurred. For the years ended December 31, 2005, 2004 and 2003 breakage expense amounted to Ps. 697, Ps. 613 and Ps. 491, respectively.

FEMSA Cerveza s returnable bottles and cases in the market are recognized as inventory and are subject to an agreement with a retailer pursuant to which FEMSA Cerveza retains ownership. These bottles and cases are monitored by sales personnel during their periodic visits, and if any breakage is identified, it is charged to the retailer. Bottles and cases that are not subject to such agreements are expensed when placed in the hands of retailers. Until 2004, for tax purposes, the cost of the bottles was deducted at the time of purchase. As of January 1, 2005, FEMSA Cerveza, as allowed by the tax law, decided to change its tax criteria for bottles deduction, considering them as fixed asset and computing depreciation using the straight-line method at a rate of 10% per year. The change does not impact the total amount of taxes owed, but does generate surcharges. The total amount paid as a surcharge was Ps. 177, of which Ps. 121 was recorded in net income as of December 31, 2004.

Coca-Cola FEMSA s returnable bottles and cases in the market and for which a deposit from customers has been received are presented net of such deposits, and the difference between the cost of these assets and the deposits received is amortized according to their useful lives. The bottles and cases for which no deposit has been received, which represent most of the bottles and cases placed in the market, are expensed when placed in the hands of customers. Depreciation is computed only for tax purposes using the straight-line method at a rate of 10% per year.

The Company estimates that breakage expense of returnable bottles and cases in plant and distribution centers is similar to the depreciation calculated on an estimated useful life of approximately five years for beer returnable bottles, four years for soft drinks returnable glass bottles and plastic cases, and one year for soft drink returnable plastic bottles.

f) Investments in Shares:

Investments in shares of associated companies are initially recorded at their acquisition cost and subsequently accounted for using the equity method. Investments in affiliated companies in which the Company does not have significant influence are recorded at acquisition cost and are adjusted to market value if they have an observable market value or based upon the inflation factors of the country of origin, with such adjustments reflected in the income statement.

g) Property, Plant and Equipment:

Property, plant and equipment are initially recorded at their cost of acquisition and/or construction. Property, plant and equipment of domestic origin, except returnable bottles and cases of Coca-Cola FEMSA (see Note 7 e), are restated by applying inflation factors. Imported equipment is restated by applying inflation factors of the country of origin and then translated using the exchange rate in effect at the date of the most recent balance sheet presented.

Depreciation is computed using the straight-line method, based on the value of the restated assets reduced by their residual values. The Company, together with independent appraisers, estimates depreciation rates, considering the estimated remaining useful lives of the assets.

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The estimated useful lives of the Company s principal assets are as follows:

	Years
Buildings and construction	40-50
Machinery and equipment	12-20
Distribution equipment	10-12
Refrigeration equipment	4-5
Information technology equipment	3-4

h) Other Assets:

Other assets represent payments whose benefits will be received in future years and consist of the following:

Agreements with customers for the right to sell and promote the Company s products during certain periods of time, which are considered monetary assets and amortized under two methods, in accordance with the terms of such agreements:

Actual volume method, which amortizes the proportion of the volume actually sold to the retailer over the volume target (approximately 85% of the agreements of FEMSA Cerveza are amortized on this basis); and

Straight-line method, which amortizes the asset over the life of the contract (the remaining 15% of the agreements of FEMSA Cerveza and 100% of the agreements of Coca-Cola FEMSA are amortized on this basis).

In addition, for agreements amortized based on the actual volume method, the Company periodically compares the amortization calculated based on the actual volume method against the amortization that would have resulted under the straight-line method and records a provision to the extent that the recorded amortization is less than what would have resulted under the straight-line method.

The amortization is recorded reducing net sales, which during the years ended December 31, 2005, 2004 and 2003, amounted to Ps. 1,173, Ps. 1,393 and Ps. 1,420, respectively.

Leasehold improvements, which are restated by applying inflation factors, are amortized using the straight-line method, over the shorter of the useful life of the assets or a term that equivalent to the lease period.

i) Intangible Assets:

These assets represent payments whose benefits will be received in future years. The Company separates intangible assets between those with a finite useful life and those with an indefinite useful life, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with finite useful lives are amortized and mainly consist of:

Start-up expenses, which represent costs incurred prior to the opening of an Oxxo store, including rent, permits and licenses. Such amounts are restated applying inflation factors and are amortized on a straight-line basis in accordance with the terms of the lease contract; and

Information technology and management systems costs incurred during the development stage. Such amounts are restated applying inflation factors and are amortized using the straight-line method over four years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.

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Intangible assets with indefinite lives are not amortized and are subject to periodic impairment testing. The Company s intangible assets with indefinite lives mainly consist of:

Coca-Cola FEMSA s rights to produce and distribute Coca-Cola trademark products in the territories acquired through the Panamco acquisition (see Note 4) are contained in agreements that are the standard contracts that The Coca-Cola Company enters into with bottlers outside the United States of America for the sale of concentrates for certain Coca-Cola trademark beverages. The most significant bottler agreements have terms of 10 years and are automatically renewable for 10-year terms, subject to non-renewal by either party. These agreements are recorded in the functional currency of the subsidiary in which the investment was made and were restated by applying inflation factors of the country of origin using the exchange rate in effect at the date of the most recent balance sheet presented; and

Trademarks and distribution rights, recognized as a result of the acquisition of the 30% of FEMSA Cerveza (see Note 3) and payments made by FEMSA Cerveza in the acquisition of the previously granted franchise are restated based on the inflation factors.

Goodwill represents 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 inflation factors of the country of origin and using the exchange rate in effect at the date of the most recent balance sheet presented. Until December 31, 2004 goodwill was amortized using the straight-line method over a period of no more than 20 years. The amount of goodwill amortization in 2004 and 2003 was Ps. 14 and Ps. 15, respectively.

j) Impairment of Long-Lived Assets and Goodwill:

The Company reviews the carrying value of its long-lived assets for impairment and determines whether an impairment exists, by comparing estimated discounted future cash flows to be generated by those assets with their carrying value.

For long-lived assets, such as property, plant and equipment, identifiable intangible assets and other assets, the Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through their expected future cash flows.

For goodwill, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of the reporting unit exceeds its implied fair value.

Impairment charges regarding long-lived assets and goodwill are recognized in other expenses.

k) Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in Coca-Cola FEMSA s refrigeration equipment investment program. The contributions received for advertising and promotional incentives are included as a reduction of selling expenses. The contributions received for the refrigeration equipment investment program are recorded as a reduction of the investment in refrigeration equipment. The contributions received were Ps. 952, Ps. 958 and Ps. 1,307 during the years ended December 31, 2005, 2004 and 2003, respectively.

l) Labor Liabilities:

Labor liabilities include obligations for pension and retirement plans, seniority premiums, postretirement medical services and beginning in 2005 severance indemnity liabilities, all based on actuarial calculations

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by independent actuaries, using the projected unit credit method. Beginning January 1, 2005, revised Bulletin D-3 establishes that severance payments resulting from situations other than a restructuring should be charged to the income statement in accordance with actuarial calculations based on the Company s severance indemnity history of the last three years. Until December 31, 2004 such severance indemnities were charged to expenses on the date when a decision was taken.

Labor liabilities are considered to be non-monetary and are restated using long-term assumptions. The cost for the year of labor liabilities is charged to income from operations and unamortized prior service costs are recorded as expenses over the period during which the employees will receive the benefits of the plan, which in the case of pension and retirement plans and seniority premiums is 14 years and 20 years for postretirement medical services, both since 1996, and 19 years for severance indemnities since 2005.

Certain subsidiaries of the Company have established funds for the payment of pension benefits and postretirement medical services through irrevocable trusts with the employees named as beneficiaries.

Severance indemnities resulting from a restructuring program are charged to expenses on the date when a decision to retire personnel under a formal program or for specific causes is taken. These severance payments are included in other expenses. During the years ended December 31, 2005, 2004 and 2003, these payments amounted to Ps. 121, Ps. 158 and Ps. 109, respectively.

m) Revenue Recognition:

Revenue is recognized in accordance with stated shipping terms, as follows:

For domestic sales, upon delivery to the customer and once the customer has taken ownership of the goods (FOB destination). Domestic revenues are defined as the sales generated by the Company for sales realized in the country where the subsidiaries operate; as of December 31, 2005, 2004 and 2003, domestic revenues represented approximately 96%, 97%, and 97% of total consolidated revenues, respectively.

For exports sales, upon shipment of goods to customers (FOB shipping point), and transfer of ownership and risk of loss.

Net sales reflect units delivered at list prices reduced by promotional allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the products of the Company.

n) Operating Expenses:

Administrative expenses include labor costs (salaries and other benefits) for employees not directly involved in the sale of the Company s products, professional service fees, depreciation of office facilities and amortization of capitalized information technology system implementation costs.

Selling expenses include:

Distribution: labor costs (salaries and other benefits), outbound freight costs, warehousing costs of finished products, breakage for returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2005, 2004 and 2003, these distribution costs amounted to Ps. 9,252, Ps. 8,692 and Ps. 7,900, respectively;

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Sales: labor costs (salaries and other benefits) and sales commissions paid to sales personnel; and

Marketing: labor costs (salaries and other benefits), promotions and advertising costs.

o) Income Tax, Tax on Assets and Employee Profit Sharing:

Income tax and employee profit sharing are charged to results as they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits for which there is uncertainty as to their realizability. Deferred employee profit sharing is derived from temporary differences between the accounting result and income for employee profit sharing purposes and is recognized only when it can be reasonably assumed that the temporary differences will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

The tax on assets paid that is expected to be recovered is recorded as a reduction of the deferred tax liability.

The balance of deferred taxes is comprised of monetary and non-monetary items, based on the temporary differences from which it is derived. Deferred taxes are classified as a long-term asset or liability, regardless of when the temporary differences are expected to reverse.

The deferred tax provision to be included in the income statement is determined by comparing the deferred tax balance at the end of the year to the balance at the beginning of the year, excluding from both balances any temporary differences that are recorded directly in stockholders equity. The deferred taxes related to such temporary differences are recorded in the same stockholders equity account.

FEMSA has authorization from the Secretaría de Hacienda y Crédito Público (SHCP) to prepare its income tax and tax on assets returns on a consolidated basis, which includes the proportional taxable income or loss of its Mexican subsidiaries. The provisions for income taxes of the foreign countries have been determined on the basis of the taxable income of each individual company. Prior to January 2005, for its Mexican subsidiaries, the proportional taxable income or loss was limited to 60% of the stockholders ownership. Beginning in 2005, such limitation was eliminated.

p) Integral Result of Financing:

The integral result of financing includes:

Interest: Interest income and expenses are recorded when earned or incurred, respectively;

Foreign Exchange Gains and Losses: Transactions in foreign currencies are recorded in local currencies using the exchange rate applicable on the date they occur. Assets and liabilities in foreign currencies are adjusted using the exchange rate in effect at the date of the most recent balance sheet presented, recording the resulting foreign exchange gain or loss directly in the income statement, except for any foreign exchange gain or loss from financing obtained for the acquisition of foreign subsidiaries that are considered to be an economic hedge and the intercompany financing foreign currency denominated balances that are considered to be of a long-term investment nature (see Note 6); and

Gain or Loss on Monetary Position: Represents the result of the effects of inflation on monetary items. The gain or loss on monetary position is computed by applying inflation factors of the country of origin to the net monetary position at the beginning of each month, excluding the financing contracted for the acquisition of any foreign subsidiaries that are considered to be an economic hedge and the intercompany financing foreign currency denominated balances that are considered to be of a long-term

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investment nature (see Note 6). The gain or loss on monetary position of foreign subsidiaries is translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

q) Derivative Financial Instruments:

On January 1, 2005, Bulletin C-10, Instrumentos Financieros Derivados y Operaciones de Cobertura (Derivative Financial Instruments and Hedging Activities) went into effect. Accordingly, the Company values and records all derivative financial instruments and hedging activities, including certain derivative financial instruments embedded in other contracts, in the balance sheet as either an asset or liability measured at their fair value. Changes in the fair value of derivative financial instruments are recorded each year in the net income or as part of other comprehensive income, based on the type of hedging instrument and the effectiveness of the hedge.

Prior to Bulletin C-10, the Company s derivative financial instruments entered into for hedging purposes were valued using the same valuation criteria applied to the hedged asset or liability, and their fair value were disclosed in the notes to the financial statements. Additionally, derivative financial instruments entered into for purposes other than hedging were valued and recorded at fair value. The difference between the derivative financial instrument s initial value and fair value was recorded in the income statement.

Beginning in 2005, the Company has recorded the effect of its embedded derivative financial instruments, which result from implicit or explicit terms in its contracts that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative financial instrument. An embedded derivate that meets certain criteria are separated from the host contract and accounted for as derivative financial instrument.

The cumulative effect, net of taxes of adopting of Bulletin C-10 was the recognition of an assets of Ps. 80, of which Ps. 46 was recorded in 2005 income statement as a change in accounting principle and Ps. 34 was recorded in other comprehensive income.

r) Cumulative Other Comprehensive Loss:

The cumulative balances of the components of majority other comprehensive loss are as follows:

	2005	**2004**
Cumulative result of holding non-monetary assets	**Ps. (6,774)**	Ps. (5,840)
Loss on cash flow hedges	**(440)**	
Cumulative translation adjustment	**(900)**	(795)
Additional labor liability over unrecognized net transition obligation	**(126)**	(87)
	Ps. (8,240)	Ps. (6,722)

The cumulative results of holding non-monetary assets represents the sum of the difference between book values and restatement values, as determined by applying inflation factors to non-monetary assets such as inventories and fixed assets, and their effects on the income statement when the assets are consumed or depreciated, net of the corresponding deferred income tax effect.

s) Provisions:

Provisions are recognized for obligations that result from a past event that will likely result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.

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t) Issuances of Subsidiary Stock:

The Company recognizes issuances of a subsidiary s stock as a capital transaction, in which the difference between the book value of the shares issued and the amount contributed by the minority interest holder or a third party is recorded as additional paid-in capital.

Note 8. Accounts Receivable.

	2005	2004
Trade	**Ps.4,252**	Ps.3,895
Allowance for doubtful accounts	**(456)**	(443)
Notes receivable	**336**	479
The Coca-Cola Company	**399**	240
Guarantee deposits	**217**	38
Loans to employees	**36**	39
Travel advances to employees	**32**	29
Insurance claims	**71**	33
Other	**315**	402
	Ps.5,202	Ps.4,712

The changes in the allowance for doubtful accounts are as follows:

	2005	2004	2003
Initial balance	**Ps. 443**	Ps. 501	Ps. 404
Provision for the period	**183**	200	246
Write-off of uncollectible accounts	**(148)**	(192)	(139)
Restatement of the initial balance	**(22)**	(66)	(10)
Ending balance	**Ps. 456**	Ps. 443	Ps. 501

Note 9. Inventories.

	2005	2004
Finished products	**Ps. 3,008**	Ps. 2,436
Raw materials	**3,010**	3,695
Bottles and cases of FEMSA Cerveza	**1,514**	1,413
Advances to suppliers	**65**	160

Work in process	**217**	190
Advertising and promotional materials	**7**	6
Allowance for obsolescence	**(125)**	(123)
	Ps. 7,696	Ps. 7,777

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Note 10. Other Current Assets.

	2005	2004
Advertising and promotional expenses	**Ps. 339**	Ps. 299
Derivative financial instruments	**199**	
Agreements with customers	**81**	109
Deferred promotional expenses	**48**	41
Prepaid leases	**79**	74
Prepaid insurance	**16**	12
Advances to suppliers	**46**	7
Other	**45**	37
	Ps. 853	Ps. 579

The advertising and promotional expenses recorded in the income statements for the years ended December 31, 2005, 2004 and 2003 amounted to Ps. 3,096, Ps. 3,168 and Ps. 2,866, respectively.

Note 11. Investments in Shares.

Company	Ownership	2005	2004
FEMSA Cerveza:			
Affiliated companies of FEMSA Cerveza [(1)]	Various	**Ps.187**	Ps.149
Río Blanco Trust (waste water treatment plant) [(1)]	19.12%	**75**	135
Other [(2)]	Various	**14**	22
Coca-Cola FEMSA:			
Industria Envasadora de Querétaro, S.A. de C.V. (IEQSA[(1)])	33.68%	**150**	149
Kaiser Partiçipações, S.A. [(1)]	12.14%	**81**	102
Industria Mexicana de Reciclaje, S.A. de C.V. [(2)]	35.0%	**83**	54
Compañía de Servicios de Bebidas Refrescantes S.A. de C.V. (Salesko[(2)])	26.0%	**21**	
Beta San Miguel, S.A. de C.V. (Beta San Miguel[(1)])	2.54%	**64**	64
Complejo Industrial Can, S.A. (CICAN[(1)])	48.10%	**35**	37
Tapón Corona de Colombia, S.A. (Tapón Corona[(1)])			25
Other [(2)]	Various	**7**	12
Other investments [(2)]	Various	**41**	44
		Ps.758	Ps.793

Valuation method:

1) Equity method.
2) Restated acquisition cost (there is no readily determinable market value).

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Note 12. Property, Plant and Equipment.

	2005	2004
Land	**Ps. 5,763**	Ps. 5,711
Buildings, machinery and equipment	**65,985**	65,311
Accumulated depreciation	**(31,926)**	(30,154)
Refrigeration equipment	**3,533**	3,205
Accumulated depreciation	**(1,664)**	(1,469)
Construction in progress	**1,269**	1,773
Bottles and cases of Coca-Cola FEMSA	**1,047**	1,075
Long-lived assets stated at realizable value	**723**	840
	Ps. 44,730	Ps. 46,292

The Company has identified certain long-lived assets that are not strategic to the current and future operations of the business and are available for sale, comprised of land, buildings and equipment for disposal, in accordance with an approved program for the disposal of certain investments. Such long-lived assets, which are not in use, and have been recorded at their estimated realizable value without exceeding their restated acquisition cost, as follows:

	2005	2004
FEMSA and others	**Ps. 293**	Ps. 304
FEMSA Cerveza	**250**	272
Coca-Cola FEMSA	**180**	264
	Ps. 723	Ps. 840
Land	**Ps. 525**	Ps. 513
Buildings	**173**	269
Equipment	**25**	58
	Ps. 723	Ps. 840

As a result of selling certain long-lived assets, the Company recognized a gain of Ps. 1, Ps. 25 and Ps. 346 for the years ended December 31, 2005, 2004 and 2003, respectively. Such long-lived assets recorded at their estimated realizable value are considered monetary assets on which a loss on monetary position is computed and recorded in the income statement.

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Note 13. Intangible Assets.

	2005	**2004**
Unamortized intangible assets:		
Coca-Cola FEMSA:		
Rights to produce and distribute Coca-Cola trademark products:		
Territories of Panamco (see Note 4)	**Ps.37,153**	Ps.36,994
Buenos Aires, Argentina	**208**	201
Tapachula, Chiapas	**122**	122
FEMSA Cerveza:		
Trademarks and distribution rights (see Note 3)	**9,695**	9,669
Others	**217**	
FEMSA:		
Mundet trademark	**150**	150
FEMSA s minority interest acquisition	**194**	194
Amortized intangible assets:		
Cost of systems implementation	**742**	678
Start-up expenses	**193**	187
Acquisition of convenience store chains	**238**	233
Other	**25**	28
	Ps.48,937	Ps.48,456

The changes in the carrying amount of amortized intangible assets are as follows:

	Investments		**Amortization**			**Estimated Amortization**
	Initial	**Additions**	**Initial**	**For the Year**	**Total**	**Per Year**
2005:						
Cost of systems implementation	**Ps. 1,103**	**Ps. 324**	**Ps. (425)**	**Ps. (260)**	**Ps. 742**	**Ps. 275**
Start-up expenses	**237**	**32**	**(50)**	**(26)**	**193**	**27**
Acquisition of convenience store chains	**233**	**13**		**(8)**	**238**	**9**
2004:						
Cost of systems implementation	Ps. 835	Ps. 268	Ps. (200)	Ps. (225)	Ps. 678	
Start-up expenses	199	38	(29)	(21)	187	
Acquisition of convenience store chains		233			233	

Note 14. Other Assets.

	2005	2004
Agreements with customers	**Ps. 3,111**	Ps. 2,953
Leasehold improvements	**2,712**	2,224
Long-term accounts receivable	**386**	733
Additional labor liabilities	**555**	269
Other	**839**	589
	Ps. 7,603	Ps. 6,768

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Note 15. Balances and Transactions with Related Parties and Affiliated Companies.

The consolidated balance sheets and income statements include the following balances and transactions with related parties and affiliated companies:

Balances	**2005**	**2004**
Assets (accounts receivable)	**Ps. 626**	Ps. 764
Liabilities (suppliers and other liabilities)	**1,149**	1,407
Long-term debt with BBVA Bancomer, S.A.		8,424

Transactions	**2005**	**2004**	**2003**
Income:			
Export beer sales to Labatt USA [1]	**Ps.**	Ps. 950	Ps. 1,109
Sales of cans to IEQSA	**764**	503	369
Interest income related to short-term bank deposits at BBVA Bancomer, S.A. [2]		40	44
Other revenues from affiliated companies of FEMSA Cerveza	**789**	784	779
Expenses:			
Purchase of concentrate from The Coca-Cola Company	**7,763**	7,238	6,074
Purchase of sugar from Beta San Miguel	**575**	947	239
Purchase of baked goods and snacks from Grupo Industrial Bimbo, S.A. de C.V. [2]	**880**	782	635
Purchase of canned products from IEQSA and CICAN	**590**	487	305
Insurance premiums for policies with Grupo Nacional Provincial, S.A., Seguros Monterrey New York Life, S.A. and Fianzas Monterrey, S.A. [2]	**50**	224	159
Purchases of crown caps from Tapón Corona	**113**	206	125
Purchase of plastic bottles from Embotelladora del Atlántico, S.A. (formerly Complejo Industrial Pet, S.A.) [2]	**158**	159	146
Interest expense related to long-term debt at BBVA Bancomer, S.A. [2]		403	89
Management fees and technical assistance paid to Labatt [1]		88	137
Interest expense paid to The Coca-Cola Company	**11**	14	9
Purchase of non-carbonated soft-drinks from Salesko	**18**		

[1] Labatt and Labatt USA were considered to be related parties until the date of acquisition of the 30% of FEMSA Cerveza previously owned by affiliates of Interbrew (see Note 3).

[2] One or more members of the board of directors or senior management are members of the board of directors or senior management of the counterparties to these transactions. Since 2005, Seguros Monterrey New York Life, S.A. and Fianzas Monterrey, S.A. are not considered to be related parties. Expenses presented in 2005 are related to Grupo Nacional Provincial, S.A.

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Note 16. Balances and Transactions in Foreign Currencies.

Assets, liabilities and transactions denominated in foreign currencies, other than the functional currencies of the reporting unit, translated into U.S. dollars are as follows:

Balances		Applicable Exchange Rate [1]	Short-Term	Long-Term	Total
2005:	**Assets**	**10.7109**	**$ 379**	**$ 10**	**$ 389**
	Liabilities		**384**	**542**	**926**
2004:	Assets	11.1460	256	10	266
	Liabilities		451	903	1,354

(1) Mexican pesos per one U.S. dollar.

Transactions	2005	2004	2003
Revenues	**$ 361**	$ 256	$ 227
Expenses:			
Purchases of raw materials	**411**	371	285
Interest expense	**139**	113	132
Export expenses	**65**	29	21
Technical assistance fees	**5**	11	17
Other	**84**	123	105
	$ 704	$ 647	$ 560

As of February 15, 2006, the issuance date of these consolidated financial statements, the exchange rate published by Banco de México was 10.5258 Mexican pesos per one U.S. dollar, and the foreign currency position was similar to that as of December 31, 2005.

Note 17. Labor Liabilities.

a) Assumptions:

The 2005 and 2004 actuarial calculations for pension and retirement plans, seniority premiums, postretirement medical service and severance indemnities liabilities, as well as the cost for the period, were determined using the following long-term assumptions:

	Annual Discount Rate	Salary Increase	Return on Assets
Mexico	6.0%	2.0%	6.0%
Guatemala	4.5%	1.5%	(1)
Nicaragua	4.5%	1.5%	(1)
Costa Rica	4.5%	1.5%	4.5%
Colombia	4.5%	1.5%	(1)
Brazil	6.0%	1.5%	4.5%
Measurement date: November 2005			

(1) No funding established for the payment of postretirement obligations.

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The basis for the determination of the long-term rate of return is supported by a historical analysis of average returns in real terms for the last 30 years of the Certificados de Tesorería del Gobierno Federal (Mexican Federal Government Treasury Certificates) for Mexican investments, Treasure Bonds of each country for other investments and the expectations of long-term returns of the actual investments of the Company.

The annual growth rate for health care expenses is 2% in real terms, consistent with the historical average health care expense rate for the past 30 years and such rate is expected to remain consistent for the foreseeable future.

Based on these assumptions, the expected benefits to be paid in the following years are as follows:

	Pension and Retirement Plans	Seniority Premiums	Postretirement Medical Services	Severance Indemnities
2006	Ps. 231	Ps. 12	Ps. 35	Ps. 104
2007	237	11	36	76
2008	239	13	37	68
2009	245	14	38	62
2010	254	16	39	58
2011 to 2015	1,132	103	183	190

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b) **Balances of the Liabilities:**

	2005	2004
Pension and retirement plans:		
Vested benefit obligation	**Ps. 1,854**	Ps. 1,810
Non-vested benefit obligation	**1,606**	1,488
Accumulated benefit obligation	**3,460**	3,298
Excess of projected benefit obligation over accumulated benefit obligation	**372**	287
Projected benefit obligation	**3,832**	3,585
Pension plan funds at fair value	**(2,141)**	(1,936)
Unfunded projected benefit obligation	**1,691**	1,649
Unrecognized net transition obligation	**(255)**	(305)
Unrecognized actuarial net loss	**(137)**	(79)
	1,299	1,265
Additional labor liability	**337**	362
Total	**1,636**	1,627
Seniority premiums:		
Vested benefit obligation	**88**	82
Non-vested benefit obligation	**73**	71
Accumulated benefit obligation	**161**	153
Excess of projected benefit obligation over accumulated benefit obligation	**23**	19
Unfunded projected benefit obligation	**184**	172
Unrecognized net transition obligation	**(13)**	(14)
Unrecognized actuarial net loss	**(18)**	(13)
	153	145
Additional labor liability	**41**	38
Total	**194**	183
Postretirement medical services:		
Vested benefit obligation	**281**	259
Non-vested benefit obligation	**304**	286
Accumulated benefit obligation	**585**	545

Medical services funds at fair value	**(37)**	(26)
Unfunded accumulated benefit obligation	**548**	519
Unrecognized postretirement net transition obligation	**(55)**	(50)
Unrecognized actuarial net loss	**(270)**	(265)
Total	**223**	204
Severance indemnities:		
Accumulated benefit obligation	**394**	
Excess of projected benefit obligation over accumulated benefit obligation	**37**	
Projected benefit obligation	**431**	
Unrecognized net transition obligation	**(415)**	
	16	
Additional labor liability	**378**	
Total	**394**	
Total labor liabilities	**Ps. 2,447**	Ps. 2,014

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The accumulated actuarial gains and losses were generated by the differences in the assumptions used for the actuarial calculations at the beginning of the year versus the actual behavior of those variables at the end of the year.

The projected benefit obligation in some subsidiaries was less than the accumulated benefit obligation reduced by the amount of the plan assets at fair value, resulting in an additional liability, which was recorded as an other assets up to an amount of the unrecognized net transition obligation services (see Note 14) and the difference was recorded as other comprehensive income.

c) Trust Assets:

Trust assets consist of fixed and variable return financial instruments, at market value. The trust assets are invested as follows:

	2005	2004
Fixed Return:		
Traded securities	**17%**	24%
Bank instruments	**16%**	11%
Federal government instruments	**30%**	31%
Variable Return:		
Publicly traded shares	**37%**	34%
	100%	100%

The Company has a policy of maintaining at least 30% of the trust assets in Mexican Federal Government instruments. Objective portfolio guidelines have been established for the remaining percentage, and investment decisions are made to comply with those guidelines to the extent that market conditions and available funds allow. The composition of the portfolio is consistent with the composition of the portfolios of five largest international companies that manage long-term funds.

The amounts and types of securities of the Company and related parties included in trust assets are as follows:

	2005	2004
Debt:		
Grupo Industrial Bimbo, S.A. de C.V. (1)	**Ps. 10**	Ps. 10
Coca-Cola FEMSA	**45**	45
FEMSA	**2**	23
Capital:		
FEMSA	**290**	282

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(1) One or more members of the board of directors or senior management are members of the board of directors or senior management of this Company.

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d) Cost for the year:

	2005	2004	2003
Pension and retirement plans:			
Service cost	**Ps. 110**	Ps. 110	Ps. 96
Interest cost	**196**	197	175
Expected return on trust assets	**(114)**	(108)	(112)
Amortization of unrecognized transition obligation	**50**	24	20
Amortization of net actuarial loss	**1**		
	243	223	179
Seniority premiums:			
Service cost	**21**	20	17
Interest cost	**10**	10	8
Amortization of unrecognized transition obligation	**1**	1	2
Amortization of net actuarial loss	**1**		
	33	31	27
Postretirement medical services:			
Service cost	**19**	15	13
Interest cost	**32**	27	24
Expected return on trust assets	**(3)**	(2)	(2)
Amortization of unrecognized transition obligation	**5**	13	11
Amortization of net actuarial loss	**10**		
	63	53	46
Severance indemnities:			
Service cost	**56**		
Interest cost	**27**		
Amortization of unrecognized transition obligation	**29**		
	112		
	Ps. 451	Ps. 307	Ps. 252

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e) Changes in the Balance of the Obligations:

	2005	2004
Pension and retirement plans:		
Initial balance	**Ps. 3,585**	Ps. 3,638
Service cost	**110**	110
Interest cost	**196**	197
Actuarial (gain) loss	**208**	(161)
Benefits paid	**(267)**	(199)
Ending balance	**3,832**	3,585
Seniority premiums:		
Initial balance	**172**	159
Service cost	**21**	20
Interest cost	**10**	10
Actuarial loss	**8**	13
Benefits paid	**(27)**	(30)
Ending balance	**184**	172
Postretirement medical services:		
Initial balance	**545**	458
Service cost	**19**	15
Interest cost	**32**	27
Actuarial loss	**7**	80
Benefits paid	**(18)**	(35)
Ending balance	**585**	545

f) Changes in the Balance of the Trust Assets:

	2005	2004
Pension and retirement plans:		
Initial balance	**Ps. 1,936**	Ps. 1,849
Actual return on trust assets in real terms	**238**	158
Contributions	**142**	96
Benefits paid	**(175)**	(167)
Ending balance	**2,141**	1,936

Postretirement medical services:		
Initial balance	**26**	28
Actual return on trust assets in real terms	**2**	(1)
Contributions	**27**	34
Benefits paid	**(18)**	(35)
Ending balance	**37**	26

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g) Variation in Health Care Assumptions:

The following table presents the impact to the postretirement medical service obligations and the expenses recorded in the income statement with a variation of 1% in the assumed health care cost trend rates.

	Impact of changes:	
	+ 1%	**- 1%**
Postretirement medical services obligation	Ps. 94	Ps. (65)
Cost for the year	8	(11)

Note 18. Bonus Program.

The bonus program for executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives and special projects.

The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added (EVA) methodology. The objective established for the executives at each entity is based on a combination of the EVA per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

In addition, the Company provides a share compensation plan to certain key executives, consisting of an annual cash bonus to purchase FEMSA shares or options, based on the executive s responsibility in the organization, their business EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 20% per year. 50% of Coca-Cola FEMSA s annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded in income from operations and are paid in cash the following year. During the years ended December 31, 2005, 2004 and 2003, the bonus expense recorded amounted to Ps. 513, Ps. 540 and Ps. 499, respectively.

All shares held by the trusts are considered outstanding for earnings per share purposes and dividends on shares held by the trusts are charged to retained earnings.

Note 19. Bank Loans and Notes Payable.

As of December 31, 2005, short-term debt consisted of revolving bank loans. As of December 31, 2004 short-term debt consisted principally of the bridge loans incurred in connection with the acquisition of the FEMSA Cerveza minority interest, which were prepaid in June 2005 (see Note 3).

The amounts and weighted average variable interest rates of which are as follows:

	% Interest Rate[1]	**2005**	**% Interest Rate [1]**	**2004**
Mexican pesos	**4.4%**	**Ps. 45**	9.2%	Ps. 3,067
U.S. dollars	**4.7%**	**5**	2.8%	2,904
Argentine pesos	**9.4%**	**224**	5.4%	137
Venezuelan bolivars	**12.1%**	**389**	11.0%	78
		Ps. 663		Ps. 6,186

(1) Weighted average rate.

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The following table presents long-term bank loans and notes payable, as well as their weighted average rates and derivative financial instruments contracted by the Company:

	% Interest Rate [(1)]	2005	% Interest Rate[(1)]	2004
Fixed interest rate:				
U.S. dollars:				
Yankee bonds	**7.9%**	**Ps. 5,359**	7.9%	Ps. 5,789
Bank loans	**3.4%**	**253**	3.5%	269
Capital leases	**5.6%**	**113**	5.6%	174
Mexican pesos:				
Bank loans	**9.6%**	**4,136**	9.9%	1,031
Notes	**10.2%**	**1,500**	10.2%	1,550
Units of investment (UDI)	**8.7%**	**1,425**	8.7%	1,484
Variable interest rate:				
U.S. dollars:				
Bank loans	**4.8%**	**2,374**	2.9%	2,684
Syndicated loan			2.7%	1,728
Capital leases	**6.9%**	**51**	10.1%	25
Mexican pesos:				
Bank loans	**9.0%**	**10,189**	9.3%	14,352
Notes	**9.7%**	**8,156**	9.3%	11,366
Colombian pesos:				
Notes	**8.7%**	**372**	10.1%	715
Guatemalan quetzals:				
Bank loans	**6.5%**	**24**		
Long-Term Debt		**33,952**		41,167
Current maturities of long-term debt		**(4,220)**		(3,665)
		Ps. 29,732		Ps. 37,502
Derivative Financial Instruments				
Cross currency swaps:				
Bank loans from U.S. dollars to Mexican pesos:		**Ps. 1,500**		Ps. 1,612
Interest pay rate	**11.1%**		10.0%	
Interest receive rate	**4.8%**		2.9%	
Interest rate swaps variable to fixed:				
Mexican pesos:				

Bank loans:		**8,072**		9,672
Interest pay rate	**10.3%**		10.2%	
Interest receive rate	**9.0%**		10.5%	
Notes:		**8,156**		8,525
Interest pay rate	**9.2%**		9.2%	
Interest receive rate	**9.7%**		9.3%	

(1) Weighted average rate.

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Maturities of long-term debt as of December 31, 2005 are as follows:

Current maturities of long-term debt	Ps. 4,220
2007	2,440
2008	7,091
2009	6,788
2010	4,900
2011 and thereafter	8,513
	Ps. 33,952

The Company has financing from different institutions with different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

As of December 31, 2005, the Company had approved and available U.S. dollar dominated uncommitted lines of credit totaling Ps. 15,914.

Note 20. Fair Value of Financial Instruments.

a) Long-Term Debt:

The fair value of long-term bank loans and syndicated loans is based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt of similar amounts and maturities. The fair value of long-term notes is based on quoted market prices. The fair value is estimated as of the date of the most recent balance sheet presented.

	2005	**2004**
Carrying value	**Ps. 33,952**	Ps. 41,167
Fair value	**34,431**	41,712

b) Equity Forward:

A subsidiary of Coca-Cola FEMSA had equity forward contracts which expired in June and September 2004. These contracts generated a loss in 2003 of Ps. 81, which was recognized in the Panamco acquisition balance sheet and a gain of Ps. 20 recorded in the 2004 income statement.

c) Interest Rate Swaps:

The Company uses interest rate swaps to manage the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. The fair value is estimated based on quoted market prices to terminate the contracts at the date of the most recent balance sheet presented. The changes in the fair value were recorded in other comprehensive income.

The net effect of expired contracts is included in interest expense and amounted to Ps. 27, Ps. 152, and Ps. 128 for the years ended December 31, 2005, 2004 and 2003, respectively.

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constant Mexican pesos (Ps.) as of December 31, 2005.

At December 31, 2005, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value
2007	Ps. 4,250	Ps. (36)
2008	5,000	(40)
2009	2,405	(127)
2010	2,617	(131)
2011	650	(44)
2012	1,500	(116)

d) Forward Agreements to Purchase Foreign Currency:

In connection with the bridge loans incurred regarding the acquisition of FEMSA Cerveza s minority interest, the Company entered into forward contracts to buy U.S. dollars; generating a foreign exchange loss of Ps. 156 and Ps. 237 recorded in the income statement for the years ended December 31, 2005 and 2004, respectively.

The Company had forward agreements to buy euros to hedge the exchange risk between the U.S. dollar and the euro for the purchase of equipment which expired during 2005 and 2004 resulting in the recognition of a foreign exchange loss of Ps. 9 and Ps. 18 recorded in the income statement as of December 31, 2005 and 2004, respectively.

e) Unhedged Forward Contracts:

As of December, 2005, certain forward contracts do not meet the hedging criteria for accounting purposes; consequently changes in the fair value of Ps. 4 were recorded in the income statement. These contracts with a notional amount of Ps. 750 mature in May 2006.

f) Cross Currency Swaps:

The Company also has cross currency swaps to manage the interest rate and the foreign exchange risks associated with its borrowings denominated in U.S. dollars and other currencies. The fair value is estimated based on the quoted market exchange rates and interest rates to terminate the contracts at the date of the most recent balance sheet presented. The changes in the fair value were recorded in other comprehensive income.

The net effect of expired contracts is included in interest expenses and amounted to Ps. 125, for the year ended December 31, 2005.

At December 31, 2005, the Company has the following outstanding cross currency swap agreements:

Maturity Date	Notional Amount	Fair Value
2009	Ps. 161	Ps. (16)
2010	1,339	(159)

g) Unhedged Cross Currency Swaps:

As of December 31, 2005 certain cross currency swaps instruments do not meet the hedging criteria for accounting purposes; consequently changes in the estimated fair value were recorded in the income statement. The table below shows the characteristics of these instruments.

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	Maturity Date	Notional Amount	Fair Value
Mexican Pesos to U.S. Dollars	September 2008	Ps. 1,251	Ps. 22
U.S. Dollar to Colombian Pesos	September 2008	1,232	(16)
U.S. Dollar to Mexican Pesos	September 2009	1,339	(133)

During 2005, cross currency swaps matured and Ps. 67 were recorded as interest expense in the income statement.

h) Commodity Price Contracts:

The Company entered into various commodity price contracts to hedge the cost of certain raw materials. The result of the commodity price contracts was a loss of Ps. 27, a gain of Ps. 79 and a loss of Ps. 21 during the years ended December 31, 2005, 2004 and 2003, respectively, which were recorded in results of operations.

The fair value is estimated based on quoted market prices to terminate the contracts at the day of the most recent balance sheet presented. As of December 31, 2005, the Company has various commodity price contracts with maturity dates ending in 2006, with a notional amount of Ps. 866 and had recorded a fair value loss of Ps. 141.

The changes in the fair value were recorded in other comprehensive income.

i) Embedded Derivative Financial Instruments:

The Company has determined that its leasing contracts denominated in U.S. dollars host an embedded derivative financial instrument and as of December 31, 2005 has recognized the fair value of such instruments amounting to Ps. 119, which is recorded in the income statement as a foreign exchange gain.

Note 21. Minority Interest in Consolidated Subsidiaries.

	2005	2004
Coca-Cola FEMSA	**Ps. 19,293**	Ps. 17,167
FEMSA Cerveza	**48**	51
	Ps. 19,341	Ps. 17,218

On June 8, 2004, through a capital contribution, Winsa Company, LLP (a non-related third party) acquired a 16.89% voting equity interest in an indirect subsidiary of Coca-Cola FEMSA, which is the holding company for its subsidiaries in Brazil for Ps. 610.

Note 22. Stockholders Equity.

As of December 31, 2005, the capital stock of FEMSA was comprised of 5,963,710,450 common shares, without par value and with no foreign ownership restrictions. As mentioned in Note 2, as a result of the equity offering in 2005, the Company s capital stock increased by 666,400,000 shares. Fixed capital amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock.

The characteristics of the common shares are as follows:

Series B shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;

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Series L shares, with limited voting rights, which may represent up to 25% of total capital stock; and

Series D shares, with limited voting rights, which individually or jointly with series L shares may represent up to 49% of total capital stock.

The Series D shares are comprised as follows:

Subseries D-L shares may represent up to 25% of the series D shares;

Subseries D-B shares may comprise the remainder of outstanding series D shares; and

The non-cumulative premium dividend to be paid to series D stockholders will be 125% of any dividend paid to series B stockholders.

The Series B and D shares are linked together in related units as follows:

B units each of which represents five series B shares and which are traded on the BMV;

BD units each of which represents one series B share, two subseries D-B shares and two subseries D-L shares, and which are traded both on the BMV and the NYSE; and

The related units will cease to be linked together on May 2008, after a period of 10 years from the date of the first issue. Subseries D-B shares will be converted into series B shares, and subseries D-L shares will be converted into series L shares.

As of December 31, 2005, FEMSA s capital stock is comprised as follows:

	B Units	BD Units	Total
Units	472,349,500	720,392,590	1,192,742,090
Shares:			
Series B	2,361,747,500	720,392,590	3,082,140,090
Series D		2,881,570,360	2,881,570,360
Subseries D-B		1,440,785,180	1,440,785,180
Subseries D-L		1,440,785,180	1,440,785,180
Total shares	2,361,747,500	3,601,962,950	5,963,710,450

The restatement of stockholders equity for inflation is allocated to each of the various stockholders equity accounts, as follows:

	Historical Value	Restatement	Restated Value
Capital stock	Ps. 2,982	Ps. 1,971	Ps. 4,953
Additional paid-in capital	14,891	5,715	20,606
Retained earnings from prior years	23,640	1,343	24,983
Net income	5,459	90	5,549

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to stockholders during the existence of the Company, except as a stock dividend. As of December 31, 2005, this reserve for FEMSA amounted to Ps. 530 (nominal value).

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Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect, except for the restated stockholder contributions and distributions made from consolidated taxable income, denominated Cuenta de Utilidad Fiscal Neta (CUFIN) or from reinvested consolidated taxable income, denominated Cuenta de Utilidad Fiscal Neta Reinvertida (CUFINRE).

Dividends paid in excess of CUFIN and CUFINRE are subject to income tax at a grossed-up rate based on the current statutory rate. In 2003, this tax may be credited against the income tax of the year in which the dividends are paid and in the following two years against the income tax and estimated tax payments. As of December 31, 2005, FEMSA s balances of CUFIN and CUFINRE amounted to Ps. 23,374 and Ps. 2,051, respectively, and the deferred tax payments were Ps. 158.

At an ordinary stockholder meeting of the Company held on March 10, 2005, the stockholders approved a dividend of 0.111163 Mexican pesos (nominal value) per series B share and 0.138954 Mexican pesos (nominal value) per series D share that were paid in May 2005. Additionally, the stockholders approved a maximum of Ps. 3,000 for a stock repurchase program.

At an ordinary stockholder meeting of Coca-Cola FEMSA held on March 8, 2005, the stockholders approved a dividend of Ps. 636 that was paid in May 2005. The corresponding payment to the minority interest of Ps. 345 is presented as a reduction of minority interest in the statement of changes in stockholders equity.

Note 23. Net Majority Income per Share.

This represents the net majority income corresponding to each share of the Company s capital stock, computed on the basis of the weighted average number of shares outstanding during the period. Additionally, the net income distribution according to the dividend rights of each share series is presented.

The following presents the computed weighted average number of shares and the distribution of income per share series as of December 31, 2005 and 2004:

	Millions of Shares			
	Series B		Series D	
	Number	Weighted Average	Number	Weighted Average
Shares outstanding at December 31, 2004 and 2003	2,737.74	2,739.17	2,559.57	2,561.00
Increase in capital stock on May 25, 2005	344.40	205.78	322.00	192.38
Shares outstanding at December 31, 2005	3,082.14	2,944.95	2,881.57	2,753.38
Dividend rights	1.00		1.25	
Allocation of earnings	46.11%		53.89%	

Note 24. Tax System.

a) **Income Tax:**

Income tax is computed on taxable income, which differs from accounting income principally due to the treatment of the integral result of financing, the cost of labor liabilities, depreciation and other accounting provisions. The tax loss may be carried forward and applied against future taxable income as shown below.

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The income tax rates applicable in 2005 in the countries where the Company operates and the years in which tax loss carryforwards may be applied are as follows:

	Statutory Tax Rate	Expiration (years)
Mexico	30.0%	10
Guatemala	31.0%	N/A
Nicaragua	30.0%	3
Costa Rica	30.0%	3
Panama	30.0%	5
Colombia	38.5%	5-8
Venezuela	34.0%	3
Brazil	34.0%	Indefinite
Argentina	35.0%	5

The statutory income tax rate in Mexico for the years ended December 31, 2005, 2004 and 2003 was 30%, 33% and 34%, respectively.

Beginning January 1, 2005, an amendment to the income tax rate in Mexico was effective and its principal changes were as follows:

The statutory income tax rate decreased from 33% in 2004 to 30% in 2005, and it will be reduced by one percentage point per year through 2007, down to 28%;

The tax deduction for inventories is made through cost of sales, and the inventory balance as of December 31, 2004 will be taxable during the next 4 to 12 years, based on specific criteria within the tax law;

Paid employee profit sharing is deductible for income tax purposes; and

The 60% limit of the stockholders participation in the taxable income or loss of Mexican subsidiaries was eliminated for tax consolidation purposes.

The tax loss carryforward in Colombia generated before December 31, 2002, may be carried forward five years and those generated after January 1, 2003, may be carried forward eight years. Both are limited to 25% of taxable income of each year. In Brazil, tax losses may be carried forward for an indefinite period, but cannot be restated and are limited to 30% of the taxable income of each year.

b) Tax on Assets:

The Mexican tax on assets is computed at an annual rate of 1.8% based on the average of certain assets at tax restated value less certain liabilities. The tax on assets is paid only to the extent that it exceeds the income tax of the year. If in any year a tax on assets payment is required, this amount can be credited against the excess of income taxes future payments over the tax on assets in each of the preceding three years. Additionally, this payment may be restated and credited against the excess of income taxes over asset taxes for the following 10 years. Since January 1, 2005, based on the amendment made to the tax law, bank loans and foreign debt will be deducted to determine the taxable base of the tax on assets.

The operations in Guatemala, Nicaragua, Colombia and Argentina are also subject to a minimum tax, which is based primarily on a percentage of assets. Any payments are recoverable in future years, under certain conditions.

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c) Employee Profit Sharing:

Employee profit sharing is applicable to Mexico and Venezuela. In Mexico, employee profit sharing is computed at the rate of 10% of the individual taxable income, except that depreciation of historical rather than restated values is used, foreign exchange gains and losses are not included until the asset is disposed of or the liability is due, and other effects of inflation are also excluded. In Venezuela, employee profit sharing is computed at a rate equivalent to 15% of after tax earnings.

d) Deferred Income Tax:

The temporary differences that generated deferred income tax liabilities (assets) are as follows:

Deferred Income Taxes	**2005**	**2004**
Allowance for doubtful accounts	**Ps. (137)**	Ps. (131)
Inventories	**1,169**	1,885
Prepaid expenses	**113**	88
Property, plant and equipment	**4,208**	4,122
Investments in shares	**(11)**	10
Intangible and other assets	**(710)**	(604)
Labor liabilities	**(491)**	(423)
Recoverable tax on assets	**(75)**	(295)
Tax loss carryforwards	**(614)**	(792)
Derivative financial instruments	**(244)**	
Loss contingencies	**(622)**	(647)
Temporary non deductible provision	**(414)**	(433)
Employee profit sharing	**(137)**	
Other reserves	**10**	17
Deferred income tax, net	**2,045**	2,797
Deferred income tax asset	**1,230**	1,503
Deferred income tax liability	**Ps. 3,275**	Ps. 4,300

The changes in the balance of the deferred income tax, net are as follows:

	2005	**2004**
Initial balance	**Ps. 2,797**	Ps. 3,869
Gain (loss) on monetary position	**(13)**	51

Provision for the year	**(279)**	(384)
Change in the statutory income tax rate	**(9)**	(622)
Additional labor liability over unrecognized net transition obligation	**(57)**	9
Derivative financial instruments	**(241)**	
Result of holding non-monetary assets	**(153)**	(126)
Ending balance	**Ps. 2,045**	Ps. 2,797

At December 31, 2005, there are no significant non-recurring temporary differences between the accounting income for the year and the bases used for Mexican employee profit sharing. As a result, the Company did not record a provision for deferred employee profit sharing.

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e) Provision for the Year:

	2005	2004	2003
Current income tax	**Ps. 4,314**	Ps. 4,393	Ps. 2,832
Tax on assets	**14**	72	50
Deferred income tax	**(279)**	(384)	571
Change in the statutory income tax rate	**(9)**	(622)	(74)
Benefit from favorable tax ruling		(1,355)	
Income tax	**4,040**	2,104	3,379
Employee profit sharing	**544**	429	406
	Ps. 4,584	Ps. 2,533	Ps. 3,785

f) Tax Loss Carryforwards and Recoverable Tax on Assets:

As of December 31, 2005, the subsidiaries from Mexico, Panama, Colombia, Venezuela and Brazil have tax loss carryforwards and/or recoverable tax on assets. The expiration dates of such amounts are as follows:

Year	Tax Loss Carryforwards	Recoverable Tax on Assets
2006	Ps. 2	Ps. 14
2007	1	21
2008	2	
2009	6	35
2010	55	2
2011	170	2
2012	103	11
2013	368	12
2014	441	21
2015 and thereafter	173	
Indefinite (see Note 24 a)	1,944	
	Ps. 3,265	Ps. 118

Due to the uncertainty of the realization of tax loss carryforwards, a valuation allowance of the carryforward of Ps. 1,342 has been recorded. The changes in the balances are as follows:

	2005	**2004**
Initial balance	**Ps. 1,450**	Ps. 1,740
Provision of the year	**74**	500
Cancellation of provision	**(99)**	(608)
Restatement of the initial balance	**(83)**	(182)
Ending balance	**Ps. 1,342**	Ps. 1,450

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g) Reconciliation of Mexican Statutory Income Tax Rate to Consolidated Effective Income Tax Rate:

	2005	2004	2003
Mexican statutory income tax rate	**30.0%**	33.0%	34.0%
Difference between book and tax inflationary effects	**0.6%**	0.3%	0.6%
Non-deductible expenses	**1.6%**	0.5%	4.9%
Change in inventories tax deduction	**(2.0)%**		
Change in Mexican income tax rate		(5.2)%	(1.0)%
Different statutory income tax rates	**2.3%**		
Employee profit sharing	**(1.1)%**		
Other	**0.4%**		(0.3)%
Consolidated effective income tax rate	**31.8%**	28.6%	38.2%

Note 25. Contingencies and Commitments.

a) Contingencies Recorded in the Balance Sheet:

The Company has various loss contingencies, and reserves have been recorded in those cases where the Company believes an unfavorable resolution is probable. Most of these loss contingencies were recorded as a result of the Panamco acquisition. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2005:

	Short-Term	Long-Term	Total
Tax	Ps. 4	Ps. 1,364	Ps. 1,368
Legal		168	168
Labor	63	219	282
Total	Ps. 67	Ps. 1,751	Ps. 1,818

b) Unsettled Lawsuits:

The Company has entered into legal proceedings with its labor unions and tax authorities which are against or primarily involve Coca-Cola FEMSA. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount of these proceedings is $85. Those contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However the Company believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations.

In recent years in its Mexican, Costa Rican and Brazilian territories, Coca-Cola FEMSA and FEMSA Cerveza have been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the beer and soft drink industries where those subsidiaries operate.

In 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the U.S. District Court for the Southern Division of Florida against certain Colombian subsidiaries and The Coca-Cola Company. In the complaint, the plaintiffs alleged that the subsidiaries engaged in wrongful acts against the labor union and its members in Colombia for the amount of $500. The Company has filed a motion to dismiss the complaint and believes the resolution of this matter will not have a material adverse effect on its consolidated financial position or results of operations.

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c) Commitments:

As of December 31, 2005, the Company has capital and operating lease commitments for the leasing of production machinery and equipment, distribution equipment, computer equipment and land for FEMSA Comercio s operations.

The contractual maturities of the lease commitments by currencies, expressed in Mexican pesos as of December 31, 2005, are as follows:

	Mexican Pesos	U.S. Dollars
2006	Ps. 850	Ps. 316
2007	826	233
2008	830	154
2009	821	98
2010	800	155
2011	753	
2012 and thereafter	3,926	
Total	8,806	956

Rental expense charged to operations amounted to approximately Ps. 1,568, Ps. 1,175 and Ps. 889 for the years ended December 31, 2005, 2004 and 2003, respectively.

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Note 26. Information by Segment.

a) By Business Unit:

			FEMSA			
	Coca-Cola FEMSA	FEMSA Cerveza	Comercio	Others	Consolidation Adjustments	Consolidated
2005						
Total revenue	**Ps. 50,198**	**Ps. 27,573**	**Ps. 28,734**	**Ps. 6,168**	**Ps. (7,091)**	**Ps. 105,582**
Intercompany revenue	**601**	**2,066**	**2**	**4,422**	**(7,091)**	
Income from operations	**8,683**	**5,353**	**1,259**	**386**	**(94)**	**15,587**
Depreciation (1)	**2,250**	**1,476**	**323**	**98**		**4,147**
Amortization	**136**	**1,742**	**279**	**17**		**2,174**
Other non-cash charges (2) (3)	**150**	**160**	**7**	**64**		**381**
Impairment of long-lived assets	**30**	**25**				**55**
Interest expense	**2,452**	**1,215**	**567**	**713**	**(427)**	**4,520**
Interest income	**280**	**210**	**65**	**510**	**(427)**	**638**
Income tax	**2,277**	**1,090**	**285**	**388**		**4,040**
Capital expenditures	**2,012**	**2,882**	**1,368**	**243**		**6,505**
Long-term assets	**59,726**	**34,635**	**6,279**	**8,017**	**(5,399)**	**103,258**
Total assets	**67,148**	**44,810**	**9,690**	**11,820**	**(7,470)**	**125,998**
2004						
Total revenue	Ps. 47,787	Ps. 25,802	Ps. 23,599	Ps. 5,322	Ps. (5,677)	Ps. 96,833
Intercompany revenue	285	1,666	2	3,724	(5,677)	
Income from operations	7,988	4,902	941	419	(14)	14,236
Depreciation (1)	2,032	1,519	223	108		3,882
Amortization	299	1,778	226	23		2,326
Other non-cash charges (2) (3)	65	112	5	58		240
Impairment of long-lived assets		484		19		503
Interest expense	2,622	840	225	506	(299)	3,894
Interest income	288	166	53	364	(299)	572
Income tax	872	827	246	159		2,104
Capital expenditures	2,009	3,276	1,703	159		7,147
Long-term assets	60,440	35,383	5,481	8,718	(6,210)	103,812
Total assets	69,618	44,505	8,555	10,483	(8,086)	125,075

2003

Total revenue	Ps. 39,062	Ps. 24,956	Ps. 18,914	Ps. 4,933	Ps. (5,369)	Ps. 82,496
Intercompany revenue	191	1,641	12	3,525	(5,369)	
Income from operations	7,340	4,634	761	344	(6)	13,073
Depreciation [(1)]	1,645	1,537	143	110		3,435
Amortization	89	1,725	135	23		1,972
Other non-cash charges [(2)] [(3)]	39	113	5	54		211
Impairment of long-lived assets		859				859
Interest expense	1,681	852	162	149	(165)	2,679
Interest income	265	232	62	376	(165)	770
Income tax	1,602	1,136	297	344		3,379
Capital expenditures	2,164	3,855	1,311	126		7,456

(1) Includes breakage of bottles of Coca-Cola FEMSA.
(2) Excludes the non-cash charges related to current assets and liabilities.
(3) Includes the cost for the year related to labor liabilities (see Note 17d) and participation in associated companies.

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b) By Geographic Area:

2005	**Total Revenue**	**Capital Expenditures**	**Long-term Assets**	**Total Assets**
Mexico	**Ps. 86,606**	**Ps. 5,514**	**Ps. 91,965**	**Ps. 111,137**
Central America [1]	**3,428**	**145**	**4,614**	**5,568**
Colombia	**4,698**	**296**	**5,893**	**8,236**
Venezuela	**4,946**	**285**	**3,416**	**4,145**
Brazil	**5,819**	**179**	**4,270**	**6,297**
Argentina	**2,798**	**86**	**1,234**	**1,770**
Consolidation adjustments	**(2,713)**		**(8,134)**	**(11,155)**
Consolidated	**Ps. 105,582**	**Ps. 6,505**	**Ps. 103,258**	**Ps. 125,998**

2004	**Total Revenue**	**Capital Expenditures**	**Long-term Assets**	**Total Assets**
Mexico	Ps. 77,431	Ps. 6,277	Ps. 93,983	Ps. 112,077
Central America [1]	3,525	164	5,005	6,038
Colombia	4,376	126	6,020	8,325
Venezuela	4,683	235	3,487	4,248
Brazil	5,195	287	4,178	5,756
Argentina	2,615	58	1,298	2,014
Consolidation adjustments	(992)		(10,159)	(13,383)
Consolidated	Ps. 96,833	Ps. 7,147	Ps. 103,812	Ps. 125,075

2003	**Total Revenue**	**Capital Expenditures**
Mexico	Ps. 69,402	Ps. 6,917
Central America [1]	2,314	155
Colombia	2,930	1
Venezuela	2,827	50
Brazil	3,041	218
Argentina	2,242	115
Consolidation adjustments	(260)	
Consolidated	Ps. 82,496	Ps. 7,456

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

Note 27. Differences Between Mexican GAAP and U.S. GAAP.

The consolidated financial statements of the Company are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. A reconciliation of the reported majority net income, majority stockholders equity and majority comprehensive income to U.S. GAAP is presented in Note 28. It should be noted that this reconciliation to U.S. GAAP does not include the reversal of the restatement of the financial statements as required by Bulletin B-10, Reconocimiento de los Efectos de Inflación en la Información Financiera (Recognition of the Effects of Inflation in the Financial Information), of Mexican GAAP.

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

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Amounts expressed in millions of U.S. dollars ($) and in millions of

constant Mexican pesos (Ps.) as of December 31, 2005.

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

a) Consolidation of Coca-Cola FEMSA:

As mentioned in Note 4, under Mexican GAAP, the Company consolidates Coca-Cola FEMSA since it owns a majority of the outstanding voting capital stock and exercises control over the operations of Coca-Cola FEMSA in the ordinary course of business in accordance with the requirements of Mexican GAAP Bulletin B-8, Estados Financieros Consolidados y Combinados y Valuación de Inversiones Permanentes en Acciones (Consolidated and Combined Financial Statements and Valuation of Long-Term Investments in Shares). Pursuant to Bulletin B-8, Coca-Cola FEMSA meets the criteria of a subsidiary for consolidation as FEMSA holds more than 50% of Coca-Cola FEMSA s outstanding voting stock and has not yielded control to a minority shareholder. Bulletin B-8 establishes that control has been yielded when a minority shareholder obtains:

Control over more than 50% of the voting rights through a formal agreement with other shareholders;

The power derived from by-laws or formal agreement by shareholders to govern the operating and financial policies of a company;

The power to appoint or remove a majority of the Board of Directors or any organization that governs the operating and financial policies of the company; or

The power to decide the majority of the votes of the Board of Directors.

No minority shareholder of Coca-Cola FEMSA has obtained any of the rights described above.

The shareholders agreement grants The Coca-Cola Company substantive participating rights. The affirmative vote of two Directors appointed by The Coca-Cola Company is, with limited exceptions, required for matters considered by the Board of Directors, including the annual business plan, capital investment plan and asset disposals, mergers, acquisitions or sales of any line of business. Under Emerging Issues Task Force (EITF) 96-16, Investor s Accounting for an Investee When the Investor Owns a Majority of the Voting Stock but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights such approval and veto rights held by The Coca-Cola Company qualify as substantive participating rights and therefore do not allow FEMSA to consolidate Coca-Cola FEMSA in its financial statements for U.S. GAAP purposes. Therefore, FEMSA s investment in Coca-Cola FEMSA is recorded by applying the equity method in FEMSA s consolidated financial statements under U.S. GAAP.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2005, 2004 and 2003.

Amounts expressed in millions of U.S. dollars ($) and in millions of

constant Mexican pesos (Ps.) as of December 31, 2005.

Summarized consolidated balance sheets and income statements of Coca-Cola FEMSA and subsidiaries under U.S. GAAP as of December 31, 2005 and 2004, and for the three years ended December 31, 2005 are presented as follows:

Consolidated Balance Sheets	**2005**	**2004**
Current assets	**Ps. 7,652**	Ps. 9,756
Property, plant and equipment	**19,093**	19,655
Other assets	**41,031**	40,776
Total assets	**Ps. 67,776**	Ps. 70,187
Current liabilities	**Ps. 12,100**	Ps. 11,349
Long-term liabilities	**20,966**	27,863
Total liabilities	**33,066**	39,212
Minority interest in consolidated subsidiaries	**959**	733
Stockholders equity	**33,751**	30,242
Total liabilities and stockholders equity	**Ps. 67,776**	Ps. 70,187

Consolidated Income Statements	**2005**	**2004**	**2003**
Total revenues	**Ps. 50,198**	Ps. 47,428	Ps. 38,088
Income from operations	**8,078**	7,533	7,063
Income before income tax	**6,858**	6,544	4,196
Income tax	**2,285**	595	1,676
Minority interest in results of consolidated subsidiaries	**118**	24	21
Net income	**4,455**	5,925	2,499
Other comprehensive income	**(311)**	906	691
Comprehensive income	**Ps. 4,144**	Ps. 6,831	Ps. 3,190

b) Classification Differences:

Certain items require a different classification in the balance sheet or income statement under U.S. GAAP. These include:

As explained in Note 7 c), under Mexican GAAP, advances to suppliers are recorded as inventories. Under U.S. GAAP advances to suppliers are classified as prepaid expenses;

Impairment of goodwill and other long-lived assets, the gains or losses on the disposition of fixed assets, all severance indemnity charges and employee profit sharing must be included in operating expenses under U.S. GAAP; and

Under Mexican GAAP, deferred taxes are classified as non-current, while under U.S. GAAP they are based on the classification of the related asset or liability.

c) Deferred Promotional Expenses:

As explained in Note 7 d), for Mexican GAAP purposes, the promotional costs related to the launching of new products or presentations are recorded as prepaid expenses. For U.S. GAAP purposes, such promotional costs are expensed as incurred. As of December 31, 2005, and 2004, FEMSA Cerveza does not have deferred promotional expenses.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

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constant Mexican pesos (Ps.) as of December 31, 2005.

d) Start-up Expenses:

As explained in Note 7 i), under Mexican GAAP, start-up expenses are capitalized and amortized using the straight-line method in accordance with the terms of the lease contracts at the start of operations. Under U.S. GAAP, these expenses must be recorded in the income statement as incurred, except for the licenses for the sale of beer paid for by FEMSA Comercio, which are considered to be intangible assets and amortized using the straight-line method beginning at the start of operations.

e) Intangible Assets:

As mentioned in Note 7 i), under Mexican GAAP, until January 1, 2003, all intangible assets were amortized over a period of no more than 20 years. Effective January 1, 2003, revised Bulletin C-8, Activos Intangibles (Intangible Assets), went into effect and recognizes that certain intangible assets (excluding goodwill) have indefinite lives and should not be amortized. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (effective January 1, 2002), goodwill and indefinite-lived intangible assets are also no longer subject to amortization, but rather are subject to periodic assessment for impairment. Accordingly, amortization of indefinite-lived intangible assets was discontinued in 2002 for U.S. GAAP. In 2003 amortization of indefinite-lived intangible assets was discontinued for Mexican GAAP and in 2004 the amortization of goodwill was discontinued (see Note 7 i).

As a result of the adoption of this SFAS No. 142, the Company performed an initial impairment test as of January 1, 2002 and found no impairment. Subsequent impairment tests are performed annually by the Company, unless an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In such case an impairment test would be performed between annual tests.

f) Restatement of Imported Equipment:

As explained in Note 7 g), under Mexican GAAP, imported machinery and equipment have been restated by applying the inflation rate of the country of origin and translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

Under U.S. GAAP, the Company applies the regulations of the Securities and Exchange Commission (SEC), which require that all machinery and equipment, both domestic and imported, be restated using Mexican inflation factors.

g) Capitalization of the Integral Result of Financing:

Under Mexican GAAP, the capitalization of the integral result of financing (interest, foreign exchange and monetary position) generated by loan agreements obtained to finance investment projects is optional, and the Company has elected not to capitalize the integral result of financing.

In accordance with SFAS No. 34, Capitalization of Interest Cost , if the integral result of financing is incurred during the construction of qualifying assets, capitalization is required for all assets that require a period of time to get them ready for their intented use. Accordingly, a reconciling item for the capitalization of a portion of the integral result of financing is included in the U.S. GAAP reconciliation of the majority net income and majority stockholders equity. If the borrowings are denominated in U.S. dollars, the weighted average interest rate on all such outstanding debt is applied to the balance of construction-in-progress to determine the amount to be capitalized. If the borrowings are denominated in Mexican pesos, the amount of interest to be capitalized as noted above is reduced by the gain on monetary position associated with the debt.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

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constant Mexican pesos (Ps.) as of December 31, 2005.

h) Derivative Financial Instruments:

As of January 1, 2005, in accordance with Mexican GAAP, as mentioned in Note 7 q), the Company values and records all derivative financial instruments and hedging activities according to Bulletin C-10, Instrumentos Financieros Derivados y Operaciones de Cobertura (Derivative Financial Instruments and Hedging Activities), which establishes similar accounting treatment as described in SFAS No. 133, Accounting for Derivative Financial Instruments and Hedging Activities.

For purposes of SFAS No. 133, the Company elected not to designate its derivative financial instruments as hedges for accounting purposes, and accordingly, the entire effect of the mark-to market of those instruments entered into contracted before December 31, 2000 was recognized in the income statement at January 1, 2001.

The effects of the initial application of Bulletin C-10 were already reflected in the U.S. GAAP financial statements for 2004. Therefore, the cumulative effect of the change in accounting principle is reconciled out of the amounts presented in the U.S. GAAP income statement for 2005.

i) Deferred Income Tax and Employee Profit Sharing:

The Company calculates its deferred income tax and employee profit sharing in accordance with SFAS No. 109, Accounting for Income Taxes, for U.S. GAAP purposes, which differs from Mexican GAAP as follows:

Under Mexican GAAP, the effects of inflation on the deferred tax balance generated by monetary items are recognized in the result of monetary position. Under U.S. GAAP, the deferred tax balance is classified as a non-monetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain or loss on monetary position and deferred income tax provision;

Under Mexican GAAP, deferred employee profit sharing is calculated considering only those temporary differences that arise during the year and which are expected to reverse within a defined period, while under U.S. GAAP, the same liability method used for deferred income tax is applied; and

The differences in start-up expenses, restatement of imported machinery and equipment, capitalization of financing costs, financial instruments and pension plan mentioned in Note 27 d), f), g), h) and j) generate a difference when calculating the deferred income tax under U.S. GAAP compared to that presented under Mexican GAAP (see Note 24 d).

As explained in Note 24 a), the 2005 employee profit sharing to be paid in 2006 will be deductible for income tax purposes in Mexico. This new deduction will reduce the payments of income tax in subsequent years. Therefore, the Company recorded a reduction to the

deferred income tax liability under U.S. GAAP in the amount of Ps. 240.

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Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2005, 2004 and 2003.

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The reconciliation of deferred income tax and employee profit sharing, as well as the changes in the balances of deferred taxes, are as follows:

Reconciliation of Deferred Income Tax, net	2005	2004
Deferred income tax under Mexican GAAP	**Ps. 2,045**	Ps. 2,797
Deferred income tax of Coca-Cola FEMSA	**227**	73
U.S. GAAP adjustments:		
Start-up expenses	**(49)**	(44)
Restatement of imported equipment	**158**	
Capitalization of integral result of financing	**107**	120
Derivative financial instruments		(29)
Pension and retirement plan	**(16)**	5
Severance indemnities	**(75)**	
Tax deduction for employee profit sharing	**(240)**	(307)
Total U.S. GAAP adjustments	**(115)**	(255)
Deferred income tax, net under U.S. GAAP	**Ps. 2,157**	Ps. 2,615

The total deferred income tax under U.S. GAAP includes the corresponding current portion as of December 31, 2005 and 2004 of Ps. 936 and Ps. 1,558, respectively.

Changes in the Balance of Deferred Income Tax	2005	2004
Initial balance	**Ps. 2,615**	Ps. 3,896
Provision for the year	**(323)**	(807)
Derivative financial instruments	**(106)**	(1)
Additional labor liability over unrecognized net transition obligation	**(18)**	(29)
Change in the statutory income tax rate	**(11)**	(444)
Ending balance	**Ps. 2,157**	Ps. 2,615

Reconciliation of Deferred Employee Profit Sharing	2005	2004
Deferred employee profit sharing under Mexican GAAP	**Ps.**	Ps.
U.S. GAAP adjustments:		
Allowance for doubtful accounts	**(6)**	(10)
Inventories	**342**	487
Prepaid expenses	**32**	19
Property, plant and equipment	**755**	776
Deferred charges	**(83)**	(52)

Capitalization of interest expense	**38**	42
Start-up expenses	**(14)**	(14)
Labor liabilities	**(156)**	(107)
Derivative financial instruments	**5**	
Other reserves	**(54)**	(45)
Total U.S. GAAP adjustments	**859**	1,096
Deferred employee profit sharing under U.S. GAAP	**Ps. 859**	Ps. 1,096

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Notes to the Consolidated Financial Statements (Continued)

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constant Mexican pesos (Ps.) as of December 31, 2005.

The total deferred employee profit sharing under U.S. GAAP includes the corresponding current portion as of December 31, 2005 and 2004 of Ps. 373 and Ps. 496, respectively.

Changes in the Balance of Deferred Employee Profit Sharing	**2005**	**2004**
Initial balance	**Ps. 1,096**	Ps. 1,207
Provision for the year	**(231)**	(102)
Additional labor liability over unrecognized net transition obligation	**(6)**	(9)
Ending balance	**Ps. 859**	Ps. 1,096

j) Pension Plan:

Under Mexican GAAP, the liabilities for employee benefits are determined using actuarial computations in accordance with Bulletin D-3 which is substantially the same as SFAS No. 87, Employers Accounting for Pensions, except for the initial year of application of both standards, which generates a difference in the unamortized net transition obligation and in the amortization expense.

In January 1997, as a result of the application of inflationary accounting, Mexican GAAP determined that labor obligations are non-monetary liabilities and required the application of real, instead of nominal, interest rates in actuarial calculations. These changes required recalculation of the accumulated transition obligation, and the difference in the transition obligation represents the sum of the actuarial gains or losses since the first year that labor obligations have been calculated.

The Company uses the same real interest rate for both U.S. GAAP and Mexican GAAP. As a result, the transition obligation has been recalculated and the difference is being amortized over the average life of employment (14 years) of the Company.

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

The Company has prepared a study of pension costs under U.S. GAAP based on actuarial calculations using the same assumptions applied under Mexican GAAP (see Note 7 l).

The reconciliation of the net pension cost and pension liability is as follows:

Net Pension Cost	**2005**	**2004**	**2003**
Net pension cost recorded under Mexican GAAP	**Ps. 243**	Ps. 223	Ps. 179

Net pension cost of Coca-Cola FEMSA	**(64)**	(48)	(40)
U.S. GAAP adjustments:			
Amortization of unrecognized transition obligations	**1**	29	19
Net pension cost under U.S. GAAP	**Ps. 180**	Ps. 204	Ps. 158

Pension Liability	**2005**	**2004**
Pension liability under Mexican GAAP	**Ps. 1,636**	Ps. 1,627
Pension liability of Coca-Cola FEMSA	**(575)**	(611)
U.S. GAAP adjustments:		
Unrecognized net transition obligation	**56**	(13)
Pension liability under U.S. GAAP	**Ps. 1,117**	Ps. 1,003

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constant Mexican pesos (Ps.) as of December 31, 2005.

k) Severance Indemnities:

Under Mexican GAAP, as mentioned in Note 7 l, effective in 2005 revised Bulletin D-3 requires the recognition of a severance indemnity liability calculated based on actuarial computations. The same recognition criteria under U.S. GAAP is established in SFAS No. 112 Employers Accounting for Postemployment Benefits, which has been effective since 1994. The Company had not previously recorded an amount under U.S. GAAP as it believed that an obligation could not be reasonably quantified.

Beginning in 2005, the Company applies the same considerations as required by Mexican GAAP to recognized the severance indemnity liability for U.S. GAAP purposes. The cumulative effect of the severance obligation related to vested services has been recorded in the 2005 income statement since the effect is not considered to be quantitatively or qualiatively material to Company s consolidated U.S. GAAP financial statements taken as a whole. The additional labor liability has not been recorded for U.S. GAAP purposes.

l) Minority Interest:

Under Mexican GAAP, the minority interest in consolidated subsidiaries is presented as a separate component within stockholders equity in the consolidated balance sheet.

Under U.S. GAAP, this item must be excluded from consolidated stockholders equity in the consolidated balance sheet. Additionally, the minority interest in the net earnings of consolidated subsidiaries is excluded from consolidated net income.

The U.S. GAAP adjustments shown in Note 28 a) and b) are calculated on a consolidated basis. Therefore, the minority interest effect is presented as a separate line item, in order to obtain net income and stockholders equity.

The U.S. GAAP adjustments corresponding to FEMSA Cerveza s minority interest, includes amounts until the date of acquisition of the FEMSA Cerveza minority interest in 2004 (see Note 3):

Income Statement	**2005**	**2004**	**2003**
Restatement of imported machinery and equipment	**Ps.**	Ps.	Ps. 7
Capitalization of the integral result of financing		5	11
Derivative financial instruments		7	(32)
Deferred income tax		(11)	(24)
Deferred employee profit sharing		(12)	(41)
Net pension cost		3	2
	Ps.	Ps. (8)	Ps. (77)

m) FEMSA s Minority Interest Acquisition:

In accordance with Mexican GAAP, the Company applied the entity theory to the acquisition of the minority interest by FEMSA in May 1998, through an exchange offer. Accordingly, no goodwill was created as a result of such acquisition and the difference between the book value of the shares acquired by FEMSA and the FEMSA shares exchanged was recorded as additional paid-in capital. The direct out-of-pocket costs identified with the purchase of minority interest are treated as an additional purchase cost and included in other expenses.

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In accordance with U.S. GAAP, the acquisition of minority interest must be accounted under the purchase method, using the market value of shares received by FEMSA in the exchange offer to determine the cost of the acquisition of such minority interest and the related goodwill. Under U.S. GAAP, the direct out-of-pocket costs identified with the purchase of minority interest are treated as additional goodwill.

Additionally, SFAS No. 142 requires the allocation of all goodwill to the related reporting units. The allocation of the goodwill generated by the previously mentioned acquisition of minority interest is as follows:

FEMSA Cerveza	Ps. 9,818
Coca-Cola FEMSA	4,403
FEMSA Comercio	1,005
Other companies	849
	Ps. 16,075

n) Statement of Cash Flows:

Under Mexican GAAP, the Company presents a consolidated statement of changes in financial position in accordance with Bulletin B-12, Estado de Cambios en la Situación Financiera (Statement of Changes in Financial Position), which identifies the generation and application of resources by the differences between beginning and ending financial statement balances in constant Mexican pesos. Bulletin B-12 also requires that monetary and foreign exchange gains and losses be treated as cash items for the determination of resources generated by operations.

In accordance with U.S. GAAP, the Company follows SFAS No. 95, Statement of Cash Flows, which is presented in historical Mexican pesos, without the effects of inflation (see Note 27 o).

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o) Financial Information Under U.S. GAAP:

Consolidated Balance Sheets	**2005**	**2004**
ASSETS		
Current Assets:		
Cash and cash equivalents	**Ps. 6,182**	Ps. 3,327
Accounts receivable	**2,755**	2,851
Inventories	**5,503**	5,591
Recoverable taxes	**344**	257
Other current assets	**568**	555
Total current assets	**15,352**	12,581
Investments in shares:		
Coca-Cola FEMSA	**15,426**	13,823
Other investments	**318**	352
Property, plant and equipment	**25,984**	25,923
Intangible assets	**26,823**	26,870
Other assets	**7,432**	6,234
TOTAL ASSETS	**Ps. 91,335**	Ps. 85,783
LIABILITIES AND STOCKHOLDERS EQUITY:		
Current Liabilities:		
Bank loans	**Ps. 45**	Ps. 5,969
Interest payable	**76**	84
Current maturities of long-term debt	**410**	492
Suppliers	**4,716**	4,242
Deferred tax liability	**1,309**	2,053
Taxes payable	**1,034**	1,280
Accounts payable, accrued expenses and other liabilities	**1,847**	1,623
Total current liabilities	**9,437**	15,743
Long-Term Liabilities:		
Bank loans and notes payable	**14,058**	15,055
Deferred tax liability	**1,717**	1,658
Labor liabilities	**1,746**	1,331
Other liabilities	**838**	225
Total long-term liabilities	**18,359**	18,269
Total liabilities	**27,796**	34,012

Minority interest in consolidated subsidiaries	**48**	52
Stockholders equity	**63,491**	51,719
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**Ps. 91,335**	Ps. 85,783

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

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constant Mexican pesos (Ps.) as of December 31, 2005.

Consolidated Income Statements	**2005**	**2004**	**2003**
Net sales	**Ps. 58,084**	Ps. 51,035	Ps. 45,987
Other operating revenues	**298**	426	117
Total revenues	**58,382**	51,461	46,104
Cost of sales	**33,895**	28,230	25,171
Gross profit	**24,487**	23,231	20,933
Operating expenses:			
Administrative	**4,713**	4,234	3,930
Selling	**13,373**	13,429	12,021
	18,086	17,663	15,951
Income from operations	**6,401**	5,568	4,982
Integral result of financing:			
Interest expense	**(1,947)**	(1,223)	(862)
Interest income	**358**	284	508
Foreign exchange gain (loss)	**135**	24	(548)
Gain on monetary position	**264**	462	90
	(1,190)	(453)	(812)
Other income (expenses), net	**(87)**	88	215
Income before income tax and tax on assets	**5,124**	5,203	4,385
Income tax and tax on assets	**1,868**	694	1,636
Income before minority interest and affiliated companies	**3,256**	4,509	2,749
Minority interest in results of consolidated subsidiaries		(485)	(397)
Participation in affiliated companies:			
Coca-Cola FEMSA	**2,035**	2,720	1,170
Other affiliated companies	**42**	65	33
	2,077	2,785	1,203
Net income	**Ps. 5,333**	Ps. 6,809	Ps. 3,555
Other comprehensive income	**(721)**	(213)	(837)
Comprehensive income	**Ps. 4,612**	Ps. 6,596	Ps. 2,718
Net income per share (constant Mexican pesos):			
Per Series B share	**Ps. 0.84**	Ps. 1.15	Ps. 0.60
Per Series D share	**1.04**	1.43	0.75

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

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constant Mexican pesos (Ps.) as of December 31, 2005.

Consolidated Cash Flows [1]	**2005**	**2004**	**2003**
Cash flows from operating activities:			
Net income	**Ps. 5,333**	Ps. 6,809	Ps. 3,555
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Minority interest		485	397
Inflation effect	**(90)**	(374)	(211)
Depreciation	**1,930**	1,776	1,712
Amortization	**1,998**	1,919	1,691
Participation in affiliated companies	**(2,077)**	(2,695)	(1,006)
Deferred income taxes	**(95)**	(605)	(235)
Other non-cash charges	**586**	274	890
Changes in operating assets and liabilities:			
Working capital investment	**359**	(733)	(725)
Recoverable taxes, net	**(547)**	(691)	954
Interest payable	**(5)**	56	(50)
Labor obligations	**(168)**	306	(28)
Net cash flows provided by operating activities	**7,224**	6,527	6,944
Cash flows from investing activities:			
Investment in shares	**(138)**		
Property, plant and equipment	**(2,169)**	(1,798)	(2,584)
Acquisition of FEMSA Cerveza minority interest		(14,694)	
Capital contribution to Coca-Cola FEMSA			(2,786)
Other assets	**(2,921)**	(2,415)	(2,745)
Net cash flows used in investing activities	**(5,228)**	(18,907)	(8,115)
Cash flows from financing activities:			
Bank loans	**(5,966)**	11,514	(1,376)
Increase in capital stock	**7,644**		
Dividends declared and paid	**(660)**	(531)	(1,043)
Dividends received from Coca-Cola FEMSA	**283**	238	
Other financing activities	**(335)**	(571)	101
Net cash flows provided by (used in) financing activities	**966**	10,650	(2,318)
Cash and cash equivalents:			
Net decrease	**2,962**	(1,730)	(3,489)
Initial balance	**3,220**	4,950	8,439
Ending balance	**Ps. 6,182**	Ps. 3,220	Ps. 4,950
Supplemental cash flow information:			

Interest paid	**Ps. 2,033**	Ps. 1,153	Ps. 947
Income tax and tax on assets paid	**2,150**	2,130	1,026

(1) Expressed in millions of historical Mexican pesos.

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Notes to the Consolidated Financial Statements (Continued)

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constant Mexican pesos (Ps.) as of December 31, 2005.

Consolidated Statements of Changes in Stockholders Equity	**2005**	**2004**
Stockholders equity at the beginning of the year	**Ps. 51,719**	Ps. 45,694
Increase in capital stock	**7,837**	
Dividends declared and paid	**(677)**	(569)
Other comprehensive income:		
Participation in Coca-Cola FEMSA	**274**	185
Derivative financial instruments	**(551)**	111
Additional labor liability over unrecognized net transition obligation	**(39)**	(7)
Result of holding non-monetary assets	**(405)**	(504)
Other comprehensive income	**(721)**	(215)
Net income	**5,333**	6,809
Stockholders equity at the end of the year	**Ps. 63,491**	Ps. 51,719

Note 28. Reconciliation of Mexican GAAP to U.S. GAAP.

a) Reconciliation of Net Income:

	2005	**2004**	**2003**
Net majority income under Mexican GAAP	**Ps. 5,549**	Ps. 6,027	Ps. 3,408
U.S. GAAP adjustments:			
Participation in Coca-Cola FEMSA (Note 27 a)	**(60)**	168	(35)
Start-up expenses (Note 27 d)	**(20)**	(25)	(29)
Intangible assets and goodwill (Note 27 e)		14	15
Restatement of imported machinery and equipment (Note 27 f)	**(27)**	(13)	(124)
Capitalization of the integral result of financing (Note 27 g)	**(42)**	(24)	(20)
Derivative financial instruments (Note 27 h)	**97**	74	141
Deferred income taxes (Note 27 i)	**(136)**	523	107
Deferred employee profit sharing (Note 27 i)	**231**	102	188
Pension plan (Note 27 j)	**(1)**	(29)	(19)
Severance indemnities (Note 27 k)	**(258)**		
Minority interest (Note 27 l)		(8)	(77)
Total U.S. GAAP adjustments	**(216)**	782	147
Net income under U.S. GAAP	**Ps. 5,333**	Ps. 6,809	Ps. 3,555

Under U.S. GAAP, the monetary position effect of the income statement adjustments is included in each adjustment, except for the capitalization of the integral result of financing, intangible assets and goodwill as well as pension plan liabilities, which are non-monetary.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

For the years ended December 31, 2005, 2004 and 2003.

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constant Mexican pesos (Ps.) as of December 31, 2005.

b) Reconciliation of Stockholders Equity:

	2005	2004
Majority stockholders equity under Mexican GAAP	**Ps. 47,851**	Ps. 36,660
U.S. GAAP adjustments:		
Participation in Coca-Cola FEMSA (Note 27 a)	**(8)**	(222)
Start-up expenses (Note 27 d)	**(169)**	(149)
Intangible assets and goodwill (Note 27 e)	**50**	50
Restatement of imported machinery and equipment (Note 27 f)	**563**	1
Capitalization of the integral result of financing (Note 27 g)	**381**	423
Derivative financial instruments (Note 27 h)		(97)
Deferred income taxes (Note 27 i)	**115**	255
Deferred employee profit sharing (Note 27 i)	**(859)**	(1,096)
Pension plan (Note 27 j)	**(56)**	13
Severance indemnities (Note 27 k)	**(258)**	
FEMSA s minority interest acquisition (Note 27 m)	**15,881**	15,881
Total U.S. GAAP adjustments	**15,640**	15,059
Stockholders equity under U.S. GAAP	**Ps. 63,491**	Ps. 51,719

c) Reconciliation of Comprehensive Income:

	2005	2004	2003
Majority comprehensive income under Mexican GAAP	**Ps. 4,031**	Ps. 6,044	Ps. 3,647
U.S. GAAP adjustments:			
Net income (Note 28 a)	**(216)**	782	147
Derivative financial instruments	**(111)**	111	(420)
Result of holding non-monetary assets	**908**	(343)	(656)
Comprehensive income under U.S. GAAP	**Ps. 4,612**	Ps. 6,594	Ps. 2,718

Note 29. Future Impact of Recently Issued Accounting Standards Not Yet in Effect.

a) Mexican GAAP:

As of May 31,2004, the Mexican Institute of Public Accountants (IMCP) formally transferred the function of establishing and issuing financial reporting standards to the Mexican Board for Research and Development of Financial Reporting Standards (CINIF), consistent with the international trend of requiring this function be performed by an independent entity.

Accordingly, the task of establishing bulletins on Mexican GAAP and circulars issued by the IMCP was transferred to CINIF, who subsequently renamed standards of Mexican GAAP as Normas de Información Financiera (Financial Reporting Standards, or NIFs), and determined that NIFs encompass (i) new bulletins established under the new function; (ii) any interpretations issued thereon; (iii) any Mexican GAAP bulletins that have not been amended, replaced or revoked by the new NIFs; and (iv) International Financial Reporting Standards (IFRS) that are supplementary guidance to be used when Mexican GAAP does not provide primary guidance.

One of the main objectives of CINIF is to attain greater concurrence with IFRS. To this end, it started by reviewing the theoretical concepts contained in MEX GAAP and establishing a Conceptual Framework to

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (Continued)

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constant Mexican pesos (Ps.) as of December 31, 2005.

support the development of financial reporting standards and to serve as a reference in solving issues arising in the accounting practice. The Conceptual Framework is formed by eight financial reporting standards, which comprise the NIF-A series. The NIF-A series, together with NIF B-1, were issued on October 31, 2005. Their provisions are effective for years beginning January 1, 2006, superseding all existing Mexican GAAP series A bulletins.

The most significant changes established by these standards are as follows:

In addition to the statement of changes in financial position, NIF A-3 includes the statement of cash flows, which should be issued when required by a particular standard.

NIF A-5 includes a new classification for revenues and expenses: ordinary and extraordinary. Ordinary revenues and expenses are derived from transactions or events that are within the normal course of business or that are inherent in the entity s activities, whether frequent or not; extraordinary revenues and expenses refer to unusual transactions and events, whether frequent or not.

NIF A-7, requires the presentation of comparative financial statements for at least with the preceding period. Through December 31, 2004, the presentation of prior years financial statements was optional. The financial statements must disclose the authorized date for their issuance, and the name(s) of the officer(s) or administrative body(ies) authorizing the related issuance.

NIF B-1 establishes that changes in particular standards, reclassifications and correction of errors must be recognized retroactively. Consequently, basic financial statements presented on a comparative basis with the current year that might be affected by the change, must be adjusted as of the beginning of the earliest period presented.

The Company will adopt these new standards on its financial information, beginning January 1, 2006 and does not anticipate any significant impact on its consolidated financial position or results of operations.

b) U.S. GAAP:

The following new accounting standards have been issued under U.S. GAAP, the application of which is required as indicated. The Company does not anticipate that these new standards will have a significant impact on its consolidated financial position or results of operations.

Share-Based Payments , or SFAS No. 123(R)

This Statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees to stock compensation awards issued to employees. Rather, SFAS No. 123(R) requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award-the requisite service period (usually the vesting period). SFAS No. 123(R) applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. SFAS No. 123(R) will be effective for the fiscal year ending December 31, 2006. The Company does not grant stock options to employees.

Inventory Costs , or SFAS No. 151

SFAS No. 151 is an amendment to Accounting Research Bulletin No. 43. This statement clarifies that the abnormal amounts of the idle capacity expense, freight, handling costs and wasted materials should

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

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be recognized as current period charges and requires the allocation of fixed production overhead cost to inventory based on the normal capacity of the production facilities. This guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application allowed for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company will adopt this accounting standard on January 1, 2006.

Exchanges of Nonmonetary Assets An Amendment of Accounting Principles Board Opinion No. 29 , or SFAS No. 153

In December 2004, the FASB issued SFAS No. 153, which amends Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance.

SFAS No. 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005. The Company will adopt this accounting standard on January 1, 2006.

Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 , or SFAS No. 154

In May 2005, the FASB issued SFAS No. 154. This statement replaces APB Opinion No.20 Accounting Changes and FASB Statement No.3 Reporting Accounting Changes in Interim Financial Statements and changes the requirements for the accounting for and reporting a change in accounting principle. This statement applies to all voluntary changes in accounting principle and also to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 requires retrospective application to prior periods financial statements of changes in accounting principle instead of recognize voluntary changes in accounting principle by including in net income of the period the change of the cumulative effect refer to a new pronouncement. This guidance should be applied for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

EITF Issue No. 96-16, Investor s Accounting for and Investee when the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders have Certain Approval or Veto Rights , or EITF 96-16

On June 2005, the Task Force agreed to amend Item 4 of the Protective Rights section of this consensus as well as Example 1 of Exhibit 96-16A to be consistent with the consensus reached in Issue 04-5 Determining Whether a General Partner, or the General Partners as a Group, Controls a limited Partnership Rights . EITF 96-16 Item 4 specifies that the acquisitions or dispositions of assets that are not expected to be undertaken in the ordinary course of the business is considered as a protective right and this does not overcome the presumption of consolidation by the investor with a majority voting interest in its investee. This amendment should be applied to new investments and to investment agreements that are modified after June 29, 2005. The consensus of this amendment to EITF 96-16, does not change the Company s current equity method accounting for its investment in Coca-Cola FEMSA in its U.S. GAAP consolidated financial statement.

EITF Issue No. 03-01, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments , or EITF 03-01

On November 3, 2005, the FASB issued FSP FAS 115-1 and FAS 124-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments . This FASB Staff Position (FSP)

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Notes to the Consolidated Financial Statements (Continued)

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addresses the determination as to when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting consideration subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends SFAS No. 115 Accounting for Certain Investments in Debt and Equity Securities and SFAS No.124 Accounting for Certain Investments Held by Not-for-Profit Organizations and APB Opinion No.18 The Equity method of accounting for Investments in Common Stock . The Company will adopt the recognition and measurement guidance of EITF 03-1 in 2006, when applicable.

EITF Issue No. 04-13, Accounting for Purchases and Sales of Inventory with the Same Counterparty , or EITF 04-13

On September 2005, the Board ratified the consensus reached by the Task Force regarding EITF Issue 04-13. This guidance addresses the circumstances under which two or more inventory transactions with the same counterparty should be viewed as a single nonmonetary transaction with the scope of APB Opinion No. 29 Accounting for Nonmonetary Transactions . The Task Force reached a consensus that nonmonetary exchange whereby an entity transfers finished goods inventory in exchange for the receipt of raw materials or work-in-progress inventory within the same line of business is not considered as an exchange transaction to facilitate sales customers as described in APB Opinion No. 29 paragraph 20(b) and therefore should be recognized by the entity at fair value if it is determinable within reasonable limits and the transaction has commercial substance. All other nonmonetary exchanges of inventory within the same line of business should be recognized at the carrying amount of the inventory transferred. The Task Force agreed that this consensus should be applied to transactions completed in reporting periods beginning after March, 2006. The Company will adopt this guidance in 2006.

EITF Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements Purchased After Lease Inception or Acquired In A Business Combination , or EITF 05-6

On June 2005, the Task Force reached a consensus on EITF Issue No. 05-6. This guidance determines that leasehold improvements acquired in a business combination should be amortized over the shorter of the useful life of the assets or a term that includes required lease period and renewals that are deemed to be reasonably assured at the date of acquisition. The Task Force also agreed that leasehold improvements that are placed in service significantly after and not contemplated at or near beginning of the lease term should be amortized over the shorter of the useful life of the assets or a term that includes required lease periods and renewals that are deemed to be reasonably assured at the date the leasehold improvement are purchased. This consensus should be applied to leasehold improvements that are purchased or acquired in reporting periods beginning after June 29, 2005.

FSP FAS 13-1, Accounting for Rental Costs Incurred During A Construction Period , or FSP FAS 13-1

On October, 2005 the Board addressed that there is no distinction between the right to use a leased asset during the construction period and the right to use that asset after the construction period. Therefore rental costs associated with ground or building operating leases that are incurred during construction period shall be recognized as rental expense. This guidance shall be applied to the first reporting period beginning after December 15, 2005. Currently, for U.S. GAAP purposes, the Company records rental expenses in the income statement as incurred.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES

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Note 30. Subsequent Events.

On January 13, 2006, FEMSA Cerveza indirectly acquired a controlling stake in Cervejarías Kaiser Brasil, S.A. (Kaiser) from the Molson, Inc. (Molson). FEMSA Cerveza acquired indirectly ownership of 68% of the equity of Kaiser for $68, using cash on hand. Molson retains 15% ownership, and Heineken, NV will maintain its current 17% stake.

FEMSA Cerveza assumed Kaiser existing financial debt, which totaled approximately $60, and has received certain indemnity provisions from Molson for the potential payment of contingent liabilities and claims.

The acquisition was accounted for by the purchase method which values the total assets acquired and its debt at market value. The Company does not expect to recognized a goodwill as a result of this transaction.

Report of Independent Registered Public Accounting Firm

To the Stockholders of

FEMSA COMERCIO, S.A. de C.V.

We have audited the consolidated balance sheets of **FEMSA COMERCIO, S.A. de C.V. and Subsidiaries (a wholly-owned subsidiary of FOMENTO ECONÓMICO MEXICANO, S.A. de C.V.)** as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders equity and changes in financial position for each of the three years in the period ended December 31, 2005 (not presented separately herein). These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of **FEMSA COMERCIO, S.A. de C.V. and Subsidiaries** at December 31, 2005 and 2004, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in Mexico, which differ in certain significant respects from accounting principles generally accepted in the United States of America, as described in Notes 20 and 21 to the consolidated financial statements.

Effective January 1, 2005, the Company adopted the provisions of certain new or revised accounting standards resulting in the following changes in accounting:

As mentioned in Note 4 i), revised Bulletin D-3 Labor Obligations requires the recognition of labor obligations for severance indemnities, other than restructuring. The liability as a result of adopting this bulletin recorded by the Company was Ps. 23,878 and the additional expense recorded in the income statement was Ps. 6,707.

As mentioned in Note 4 n) the cumulative effect for the adoption of Bulletin C-10, Derivative Financial Instruments and Hedging Activities , and Bulletin C-2, Financial Instruments, as amended, was Ps. 6,030, Ps. 4,252, net of deferred taxes of Ps. 1,778, were recorded in the income statement as a change in accounting principle.

Mancera, S. C.,
A Member Practice of
Ernst & Young Global

/s/ ALDO VILLARREAL ROBLEDO

C.P.C. Aldo Villarreal Robledo

San Pedro Garza García, N.L., Mexico

February 15, 2006

Report of Independent Registered Public Accounting Firm

To the Stockholders of

FEMSA EMPAQUES, S.A. de C. V.

We have audited the combined balance sheets of **FEMSA EMPAQUES, S.A. DE C.V. and Subsidiaries and INDUSTRIA MEXICANA DE QUIMICOS, S.A. DE C.V.** as of December 31, 2005 and 2004, and the related combined statements of income, changes in stockholders equity and changes in financial position for each of the three years in the period ended December 31, 2005 (not presented separately herein). These combined financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of **FEMSA EMPAQUES, S.A. DE C.V. and Subsidiaries** and **INDUSTRIA MEXICANA DE QUIMICOS, S.A. DE C.V.** at December 31, 2005 and 2004, and the combined results of their operations and the changes in their financial position for each of the three years in the period then ended, in conformity with accounting principles generally accepted in Mexico, which differ in certain significant respects from accounting principles generally accepted in the United States of America, as described in Notes 22 and 23 to the combined financial statements.

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/s/ VICTOR SOULÉ GARCÍA

C.P.C. Victor Soulé García

San Pedro Garza García, N.L., Mexico

February 15, 2006

Report of Independent Registered Public Accounting Firm

To the Stockholders of

FEMSA LOGISTICA, S.A. de C.V.

We have audited the consolidated balance sheet of **FEMSA LOGISTICA, S.A. de C.V. and Subsidiaries (a wholly-owned subsidiary of FOMENTO ECONÓMICO MEXICANO, S.A. de C.V.)** as of December 31, 2005, and the related consolidated statements of income, changes in stockholders equity and changes in financial position for the year then ended (not presented separately herein). These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements for the years ended December 31, 2004 and 2003 were audited by other other auditors, whose report dated January 30, 2005 expressed an unqualified opinion thereon.

We conducted our audit in accordance with auditing standards generally accepted in Mexico and in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **FEMSA LOGISTICA, S.A. de C.V. and Subsidiaries** at December 31, 2005, and the consolidated results of their operations and the changes in their financial position for the year then ended, in conformity with accounting principles generally accepted in Mexico, which differ in certain significant respects from accounting principles generally accepted in the United States of America, as described in Notes 18 and 19 to the consolidated financial statements.

Mancera, S.C.
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/s/ Victor Soulé García

C.P.C. Victor Soulé García

San Pedro Garza García, N.L., México

February 15, 2006