MEXICAN ECONOMIC DEVELOPMENT INC
Form 20-F
June 30, 2008
Table of Contents

As filed with the Securities and Exchange Commission on June 30, 2008.

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, 2007

Commission file number 333-08752

Fomento Económico Mexicano, S.A.B. 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)

Juan F. Fonseca

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(52-818) 328-6167

investor@femsa.com.mx

(Name, telephone, e-mail and/or facsimile number and

address of company contact person)

Securities registered or to be registered pursuant top 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

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

2,161,177,770	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 2,161,177,770 Series B Shares, 4,322,355,540 Series D-B Shares and 4,322,355,540 Series D-L Shares.
1,417,048,500	B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 7,085,242,500 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 file 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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨	IFRS ¨	Other x

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

¨ Item 17	x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes	x No

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Table of Contents

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.B. de C.V. a except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our subsidiary Coca-Cola FEMSA, S.A.B. 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.

The term S.A.B. stands for *Sociedad Anónima Bursátil*, which is the term in Mexico used to denominate a publicly traded company under the Mexican Securities Law issued in 2006. In December 2006, both we and Coca-Cola FEMSA changed our name to include the denomination S.A.B. in accordance with the new Mexican Securities Law.

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. 10.9169 to US$ 1.00, the noon buying rate for Mexican pesos on December 31, 2007 as published by the Federal Reserve Bank of New York. On May 30, 2008, this exchange rate was Ps. 10.3290 to US$ 1.00. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 2003. 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), local entities in each country 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, 2007 and 2006 and the related consolidated statements of income, changes in stockholders equity and changes in financial position for the years ended

Table of Contents

December 31, 2007, 2006 and 2005. Our audited consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards (*Normas de Información Financiera*), which differ in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP.

Notes 26 and 27 to our audited consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards 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 Financial Reporting Standards purposes. In the reconciliation to U.S. GAAP, we present our subsidiary Coca-Cola FEMSA, which is a consolidated subsidiary for purposes of Mexican Financial Reporting Standards, 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 Financial Reporting Standards have not been reversed in the reconciliation to U.S. GAAP. See note 26 to our audited consolidated financial statements.

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. See Item 18. Financial 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,					
	2007[1]	2007	2006	2005	2004	2003[2]
	(In millions of U.S. dollars and millions of Mexican pesos at December 31, 2007, except for per share data, the weighted average number of shares outstanding and percentages)					
Income Statement Data:						
Mexican FRS:						
Total revenues	$ 13,516	Ps. 147,556	Ps. 136,120	Ps. 119,462	Ps. 109,500	Ps. 92,132
Income from operations	1,793	19,569	18,467	17,439	15,858	14,380
Income taxes[3]	454	4,950	4,608	4,620	2,801	4,173
Consolidated net income	1,093	11,936	9,860	9,073	10,729	5,662
Net majority income	780	8,511	7,127	5,951	6,917	3,905
Net minority income	313	3,425	2,733	3,122	3,812	1,757
Net majority income:[4]						
Per Series B Share	0.04	0.42	0.36	0.31	0.39	0.22
Per Series D Share	0.05	0.53	0.44	0.39	0.49	0.27
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	9,246.4	8,834.9	8,217.6	8,217.6
Series D Shares	8,644.7	8,644.7	8,644.7	8,260.1	7,683.0	7,683.0
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	$ 7,636	Ps. 83,362	Ps. 75,704	Ps. 63,031	Ps. 55,557	Ps. 49,777
Income from operations	706	7,710	7,821	6,911	6,011	5,379
Participation in Coca-Cola FEMSA s earnings[5]	333	3,635	2,420	2,205	2,936	1,263
Minority interest	(3)	(32)	169		(524)	(429)
Net income	784	8,557	6,973	6,059	7,352	3,838

2

Table of Contents

	Selected Consolidated Financial Information Year Ended December 31,					
	2007[1]	2007	2006	2005	2004	2003[2]
	(In millions of U.S. dollars and millions of Mexican pesos at December 31, 2007, except for per share data, the weighted average number of shares outstanding and percentages)					
Net income:[4]						
Per Series B Share	0.04	0.43	0.35	0.32	0.42	0.22
Per Series D Share	0.05	0.53	0.43	0.40	0.52	0.27
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	9,246.4	8,834.9	8,217.6	8,217.6
Series D Shares	8,644.7	8,644.7	8,644.7	8,260.1	7,683.0	7,683.0
Balance Sheet Data:						
Mexican FRS:						
Total assets	$ 15,187	Ps. 165,795	Ps. 154,516	Ps. 139,823	Ps. 138,533	Ps. 128,598
Current liabilities	3,060	33,404	28,060	22,510	27,250	21,285
Long-term debt[6]	2,809	30,665	35,673	32,129	40,563	39,378
Other long-term liabilities	1,106	12,073	12,575	10,786	10,963	11,840
Capital stock	490	5,348	5,348	5,348	4,979	4,979
Total stockholders equity	8,212	89,653	78,208	74,398	60,027	56,095
Majority interest	5,915	64,578	56,654	52,400	40,314	35,096
Minority interest	2,297	25,075	21,554	21,998	19,713	20,999

Table of Contents

Selected Consolidated Financial Information
Year Ended December 31,

	2007(1)	2007	2006	2005	2004	2003(2)
	(in millions of U.S. dollars and millions of Mexican pesos at December 31, 2007, except for per share data, the weighted average number of shares outstanding and percentages)					
U.S. GAAP:						
Total assets	$ 11,430	Ps. 124,775	Ps. 114,693	Ps. 98,869	Ps. 92,613	Ps. 80,827
Current liabilities	1,702	18,579	14,814	10,090	16,997	11,652
Long-term debt(6)	1,518	16,569	18,749	15,177	16,254	8,343
Other long-term liabilities	579	6,323	7,039	4,996	3,470	5,529
Minority interest	64	698	166	52	56	5,968
Capital stock	490	5,348	5,348	5,348	4,979	4,979
Stockholders equity	7,567	82,606	73,925	68,554	55,836	49,334
Other information:						
Mexican FRS:						
Depreciation(7)	$ 452	Ps. 4,930	Ps. 4,954	Ps. 4,682	Ps. 4,280	Ps. 3,708
Capital expenditures(8)	1,031	11,257	9,422	7,508	7,948	8,085
Operating margin(9)	13.3%	13.3%	13.6%	14.6%	14.5%	15.6%
U.S. GAAP:						
Depreciation(7)	194	$ 2,114	Ps. 2,163	Ps. 2,079	Ps. 1,990	Ps. 2,009
Operating margin(9)	9.2%	9.2%	10.3%	11.0%	10.8%	10.8%

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 10.9169 to US$ 1.00 solely for the convenience of the reader.

(2) Our 2003 income statement data is not comparable to subsequent periods due to the acquisition of Panamco México, S.A. de C.V. in May 2003 by our subsidiary Coca-Cola FEMSA.

(3) Includes income tax and tax on assets. Beginning in 2007, we are required to present employee profit sharing within other expenses pursuant to Mexican Financial Reporting Standards Interpretation (INIF) No. 4 *Presentación en el Estado de Resultados de la Participación de los Trabajadores en la Utilidad* (Presentation of Employee Profit Sharing in the Income Statement). Information for prior periods has been modified for comparability purposes.

(4) Net income per share data has been modified retrospectively to reflect our 3:1 stock split effective May 25, 2007.

(5) Coca-Cola FEMSA is not consolidated for US GAAP purposes and is recorded under the equity method, as discussed in note 26 (a) to our audited consolidated financial statements.

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

(7) Includes bottle breakage.

(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.

Table of Contents

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 2003 to 2007 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared	Per Series B Share Dividend[(1)]	Per Series B Share Dividend[(1)]	Per Series D Share Dividend[(1)]	Per Series D Share Dividend[(1)]
May 31, 2004	2003	P s. 531,379,672	P s. 0.0298	$ 0.0026	P s. 0.0373	$ 0.0033
May 31, 2005	2004	P s. 659,997,941	P s. 0.0371	$ 0.0034	P s. 0.0463	$ 0.0042
June 15, 2006	2005	P s. 986,000,000	P s. 0.0492	$ 0.0043	P s. 0.0615	$ 0.0054
May 15, 2007	2006	P s. 1,485,000,000	P s. 0.0741	$ 0.0069	P s. 0.0926	$ 0.0086
May 8, 2008	2007	P s. 1,620,000,000	P s. 0.1009	$ 0.0095	P s. 0.0807	$ 0.0076

(1) The per series dividend amount has been adjusted for comparability purposes to reflect the 3:1 stock split effective May 25, 2007 by dividing, (a) for 2004, 8,213,220,270 Series B Shares and 7,678,711,080 Series D Shares by the aggregate dividend amount, and (b) for 2005, 2006 and 2007, 9,246,420,270 Series B Shares and 8,644,711,080 Series D Shares, which in each case represents the number of shares outstanding at the date each dividend is declared as adjusted retroactively for prior periods as applicable to reflect the 3:1 stock split.

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. 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 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.

Subject to certain exceptions contained in the deposit agreement dated May 11, 2007, 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.

Table of Contents

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.

	Exchange Rate			
Period	**High**	**Low**	**Average** (1)	**Period End**
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
2006	11.46	10.43	10.91	10.80
2007	11.27	10.67	10.93	10.92

(1) Average month-end rates.

	Exchange Rate		
	High	**Low**	**Period End**
2006:			
First Quarter	Ps. 10.95	Ps. 10.46	Ps. 10.90
Second Quarter	11.46	10.84	11.29
Third Quarter	11.18	10.74	10.98
Fourth Quarter	11.06	10.71	10.80
2007:			
First Quarter	Ps. 11.18	Ps. 10.77	Ps. 11.04
Second Quarter	11.03	10.71	10.79
Third Quarter	11.27	10.73	10.93
Fourth Quarter	11.00	10.67	10.92
December	10.92	10.80	10.92
2008:			
January	10.97	10.82	10.82
February	10.82	10.67	10.73
March	10.85	10.63	10.63
April	10.60	10.44	10.51
May	10.57	10.31	10.33
June(1)	10.44	10.29	10.37

(1) Information from June 1 to June 15, 2008.

Table of Contents

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 95% of Coca-Cola FEMSA s sales volume in 2007 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 decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Mexico beginning in 2007 and in Brazil 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; however, 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 agreement for Argentina expires in 2014. Coca-Cola FEMSA s bottler agreements for Guatemala, Nicaragua, Panama (other beverages), Costa Rica, Venezuela and Colombia expired in September 2008. Coca-Cola FEMSA s bottler agreement for Brazil expired in December 2004. Coca-Cola FEMSA s bottler agreement for Coca-Cola trademark beverages for Panama has an indefinite term but may be terminated with six months prior written notice by either party. Coca-Cola FEMSA is currently in the process of negotiating renewals of these agreements on similar terms and conditions as in other countries. Coca-Cola FEMSA and The Coca-Cola Company are operating under the terms of the existing agreements. There can be no assurances that The Coca-Cola Company will decide to renew any of these agreements. In addition, in the event a material breach of these agreements occurs, the agreements may be terminated. 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, results of operations and cash flows.

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 31.6% of Coca-Cola FEMSA s outstanding capital stock, representing 37.0% 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. We are entitled to appoint 11 of Coca-Cola FEMSA s 18 directors and certain of its executive officers. The Coca-Cola Company, thus may have the power to determine the outcome of certain actions requiring approval by its board of directors and may have the power to determine the outcome of certain actions requiring approval of Coca-Cola FEMSA s shareholders. See Item 10.

Additional Information Material Contracts Coca-Cola FEMSA. 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, which may 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, including cooperative marketing arrangements and a number of bottler agreements. In November 2007, Coca-Cola FEMSA purchased jointly with The Coca-Cola Company the outstanding shares of Jugos del Valle, S.A.B de C.V., which we refer to as Jugos del Valle, a Mexican juice and beverage producer with operations in Mexico, Brazil and the United States. In addition, Coca-Cola FEMSA has entered into cooperative marketing arrangements with The Coca-Cola Company. The transactions may create potential 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 sparkling beverages 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. 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.

Changes in consumer preference could reduce demand for some of Coca-Cola FEMSA s products

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

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 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 in local currency, net of applicable taxes. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Mexico which began in 2007 and in Brazil 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 materials 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 and global resin supply. Average U.S. dollar prices that Coca-Cola FEMSA paid for resin remained relatively flat in 2007, although prices may increase in future periods. 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. In 2007, sweetener prices slightly increased in all of the countries in which Coca-Cola FEMSA operates other than Mexico and Argentina. 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 sparkling beverages produced with non-sugar sweetener. This tax was eliminated beginning in 2007. Certain countries in Central America, Argentina and Brazil impose taxes on sparkling beverages. 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 sparkling beverages 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, Brazil 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, Brazil 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 3% in 2007. 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. Barley market prices increased more than 35% in 2007. FEMSA Cerveza s expects barley prices to increase, on average over 35% in 2008, due to grain price increases in the international markets. 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 and cash flows.

Table of Contents

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. In April 2007, FEMSA Cerveza and Heineken USA entered into a new ten-year agreement, which began in January 2008, pursuant to which Heineken USA will continue to be the exclusive importer, marketer and distributor of FEMSA Cerveza s beer brands in the United States. Accordingly, FEMSA Cerveza s exports to the United States depend to a significant extent on Heineken USA s performance under these agreements. See Item 5. Operating and Financial Review and Prospectus Recent Developments. We cannot assure that Heineken USA will be able to maintain or increase sales of FEMSA Cerveza s beer brands in the United States, nor that when the new agreement expires in December of 2017, 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.B. 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.

FEMSA Cerveza s sales in the Brazilian market depend on its ability to compete with Ambev and local brewers.

FEMSA Cerveza faces competition in the Brazilian beer market from Companhia de Bebidas das Americas, or AmBev, Grupo Schincariol and Cervejarias Petropolis. FEMSA Cerveza s ability to compete successfully in the Brazilian beer market will have a significant impact on its Brazilian sales. See Item 4. Information on the Company FEMSA Cerveza The Brazilian Beer Market.

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

Imports represented 2.3% of the Mexican beer market in terms of sales volume in 2007. 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 our main markets could adversely affect FEMSA Cerveza s business.

FEMSA Cerveza s business is subject to a variety of different government regulations in our key markets of Mexico, Brazil and the United States, and thus may be affected by changes in law, regulation or regulatory policy. Particularly in Mexico, actions of federal and local authorities, specifically 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 financing and bringing support to the point of sale through agreements or arrangements 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 includes 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.

Table of Contents

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

FEMSA Cerveza owns 83% of Brazilian brewer Cervejarias Kaiser Brasil S.A., or Kaiser. Prior to the acquisition of Kaiser, 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 continues to be 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 which is owned and managed by Grupo Modelo, our main competitor in the Mexican beer market, Super City, AM/PM and Circle K 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 of 19% from 2003 to 2007. 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.

Table of Contents

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 30, 2008, a voting trust, the participants of which are members of five families, owned 38.65% of our capital stock and 74.78% 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 certain changes in the form of our corporate organization, dissolutions, liquidations, a merger with a company with a distinct corporate purpose, a merger in which we are not the surviving entity, change of our jurisdiction of incorporation, the cancellation of the registration of the Series D-B and D-L Shares and any other matters that expressly require approval from such holders under the new Mexican Securities Market Law, which we refer to as the Mexican Securities Law. As a result of these limited voting rights, Series D-B and D-L 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 you 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 a part of a capital increase, other than in connection with a public offering of newly issued shares or treasury stock, we are generally required to grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our shares or ADSs who are located in the United States to exercise any preemptive rights in any future capital increases unless (1) we file a registration statement with the SEC with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

We may decide not to file a registration statement with the SEC to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depositary of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. See Item 10. Additional Information 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 do not provide a remedy to shareholders relating to violations of fiduciary duties, 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 is, 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, 2007, 72% 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 assure you 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.

Table of Contents

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 20% of our total debt as of December 31, 2007 (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. 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.

Mexican political events may significantly affect our operations. Presidential elections in Mexico occur every six years, and the most recent election occurred in July 2006. Elections in both houses of the Mexican Congress also occurred in July 2006, and although the *Partido Acción Nacional* won a plurality of the seats in the Mexican Congress in the election, no party succeeded in securing a majority in either chamber of the Mexican Congress. The absence of a clear majority by a single party is likely to continue at least until the next congressional election in 2009. This situation may result in government gridlock and political uncertainty. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results of operations.

Economic and political conditions 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. Consumer demand preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the other countries in which we operate. These conditions vary by country and may not be correlated to conditions in our Mexican operations. In particular, Brazil and Colombia have benefited from high growth rates and relative economic stability in recent periods, although these countries have a history of economic volatility and political instability. In Venezuela, Coca-Cola FEMSA faces exchange risk as well as work stoppages and potential scarcity of raw materials. Coca-Cola FEMSA has also experienced short-term disruptions in its business in Venezuela over the past few years. Deterioration in economic and political conditions in many of these countries would have an adverse effect on our financial position and results of operations.

Table of Contents

Total revenues increased in certain of our non-Mexican beverage operations at a higher rate relative to their respective Mexican operations in 2007. This higher rate of total revenue growth could result in a greater contribution to the respective results of operations for these territories, but may also expose us to greater risk in these territories as a result. Devaluation of the local currencies in countries other than Mexico against the U.S. dollar may increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso may negatively affect the results of operations for these countries as reported in our consolidated financial statements. In recent years, the Mexican peso has been relatively stable against the U.S. dollar, while currencies of other countries, specifically the Brazilian reais and the Colombian peso, have appreciated relative to the U.S. dollar and the Mexican peso. Future currency devaluation or the imposition of exchange controls in any of these countries, including Mexico, would have an adverse effect on our financial position and 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.B. de C.V., and in commercial contexts we frequently refer to ourselves as FEMSA. On December 5, 2006, as required by the new Mexican Securities Law, we changed our name to reflect that we are a *sociedad anónima bursátil de capital variable* (a variable capital listed stock corporation), whereas previously companies names in Mexico, including ours, did not indicate whether the company was a listed company (*sociedad anónima de capital variable*). 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 bursátil de capital variable* under the laws of Mexico.

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 34.596 million hectoliters in 2007.

The strategic integration of our company dates back to 1936 when our packaging operations were established to supply crown caps to the brewery. 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 Alfa, S.A.B. 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, and pursuant to which 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.

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. 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, we began a series of strategic transactions to strengthen the competitive positions of our 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.

In May 2003, our subsidiary Coca-Cola FEMSA expanded its operations throughout Latin America by acquiring 100% of Panamco México, S.A. de C.V, which we refer to as 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 Coca-Cola Company and its subsidiaries received Series D Shares in exchange for their equity interest in Panamco of approximately 25%.

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.

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, for US$ 68 million. Molson Coors retained a 15% ownership stake in Kaiser, while Heineken N.V. s ownership of 17% remained unchanged. In December 2006, Molson Coors completed its exit from Kaiser by exercising its option to sell its 15% holding to FEMSA Cerveza. On December 22, 2006, FEMSA Cerveza made a capital increase of US$200 million in Kaiser. At the time, Heineken N.V. elected not to participate in the increase, thereby diluting its 17% interest in Kaiser to 0.17%, and FEMSA Cerveza thereby increasing its stake to 99.83% of the equity of Kaiser, however, in August 2007, Femsa Cerveza and Heineken NV closed a stock purchase agreement whereby Heineken NV purchased the shares necessary to regain its 17% interest in Kaiser. As a result of this transaction, FEMSA Cerveza now owns 83% of Kaiser and Heineken NV owns 17%.

On November 3, 2006, we acquired from certain subsidiaries of The Coca-Cola Company 148,000,000 Series D shares of Coca-Cola FEMSA, representing 8.02% of the total outstanding stock of Coca-Cola FEMSA. We acquired these shares at a price of US$ 2.888 per share, or US$ 427.4 million in the aggregate, pursuant to a Memorandum of Understanding with The Coca-Cola Company. As of May 30, 2008, FEMSA indirectly owns 53.7% of the capital stock of Coca-Cola FEMSA (63.0% of its capital stock with full voting rights) and The Coca-Cola Company indirectly owns 31.6% of the capital stock of Coca-Cola FEMSA (37.0% 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.

In November 2007, Coca-Cola FEMSA and The Coca-Cola Company acquired Jugos del Valle from its controlling shareholders through a 100% tender offer for an aggregate price of US$ 456 million, including the assumption of net existing debt of approximately US$ 86 million.

In March 2007, at our company s annual meeting, our shareholders approved a three-for-one stock split of FEMSA s outstanding stock and our ADSs traded on the NYSE. The pro rata stock split had no effect on the ownership structure of FEMSA. The new units issued in the stock split were distributed by the Mexican Stock Exchange on May 28, 2007 to holders of record as of May 25, 2007, and ADSs traded on the NYSE were distributed on May 30, 2007, to holders of record as of May 25, 2007.

On April 22, 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008. Our bylaws previously provided that on May 11, 2008 our Series D-B Shares would convert into Series B Shares and our Series D-L Shares would convert into Series L Shares with limited voting rights. In addition, our bylaws provided that on May 11, 2008 our current unit structure would cease to exist and each of our B Units would be unbundled into five Series B Shares, while each BD Unit would unbundle into three Series B Shares and two newly issued Series L Shares. Following the April 22, 2008 shareholder approvals, the automatic conversion of our share and unit structures will no longer exist, and, absent shareholder action, our share structure will continue to be comprised of Series B Shares, which must represent up to 51% of our outstanding capital stock, and Series D-B and Series D-L Shares, which together may represent up to 49% of our outstanding capital stock. Our Unit structure, absent shareholder action, will continue to consist of B Units, which bundle five Series B Shares, and BD Units, which bundle one Series B Share, two Series D-B Shares and two Series D-L Shares. See The Offer and Listing Description of Securities.

Mr. Eugenio Garza Lagüera, our Honorary Life Chairman, passed away on May 24, 2008. Mr. Garza Lagüera began his professional career as a chemist in Cuauhtémoc s research department and became chairman of our Board of Directors in April 29, 1969. He served as member of several boards of directors of national and international firms. During his life he was recognized for his entrepreneurial and social trajectories.

Table of Contents

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 30, 2008

(1) Compañía Internacional de Bebidas, S.A. de C.V.

(2) Grupo Industrial Emprex, S.A. de C.V.

(3) Emprex Cerveza, S.A. de C.V.

(4) Percentage of capital stock, equal to 63.0% of capital stock with full voting rights.

Table of Contents

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

Operations by Segment Overview

Year Ended December 31, 2007 and % of growth vs. last year(1)

	Coca-Cola FEMSA		FEMSA Cerveza		FEMSA Comercio	
	(in millions of constant Mexican pesos, except for employees and percentages)					
Total revenues	Ps. 69,251	8.1%	Ps. 39,566	4.3%	Ps. 42,103	14.3%
Income from operations	11,447	11.7	5,404	(11.7)	2,315	39.1
Total assets	87,178	8.4	65,539	5.3	14,284	16.0
Employees	58,122	2.5%	21,748	1.9%	15,824	38.2%

Total Revenues Summary by Segment(1)

	Year Ended December 31,		
	2007	2006	2005
	(in millions of constant Mexican pesos)		
Coca-Cola FEMSA	Ps. 69,251	Ps. 64,046	Ps. 59,642
FEMSA Cerveza	39,566	37,919	29,768
FEMSA Comercio	42,103	36,835	31,021
Other	8,124	7,966	6,485
Consolidated total revenues	Ps. 147,556	Ps. 136,120	Ps. 119,462

Total Revenues Summary by Geographic Region(2)

	Year Ended December 31,		
	2007	2006	2005
	(in millions of constant Mexican pesos)		
Mexico	Ps. 106,136	Ps. 99,310	Ps. 90,561
Central America	4,850	4,592	4,022
Colombia	7,051	6,556	6,147
Venezuela	9,792	7,997	7,188
Brazil	16,093	14,378	8,433
Argentina	4,034	3,458	3,256
Consolidated total revenues	Ps. 147,556	Ps. 136,120	Ps. 119,462

(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) 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.

Table of Contents

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of May 31, 2008:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA(1)	Mexico	100.0%
Coca-Cola FEMSA(2)	Mexico	53.7%
Propimex, S.A. de C.V.	Mexico	53.7%
Controladora Interamericana de Bebidas, S.A. de C.V.	Mexico	53.7%
Panamco México, S.A. de C.V.	Mexico	53.7%
Refrescos Latinoamericanos, S.A. de C.V. .	Mexico	53.7%
Emprex Cerveza	Mexico	100.0%
Desarrollo Comercial FEMSA, S.A. de C.V.	Mexico	100.0%
FEMSA Cerveza	Mexico	100.0%
Cervezas Cuauhtémoc Moctezuma, S.A. de C.V.	Mexico	100.0%
Grupo Cuauhtémoc Moctezuma, S.A. de C.V.	Mexico	100.0%

(1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.

(2) Percentage of capital stock. FEMSA owns 63.0% of the capital stock with full voting rights.

Business Strategy

We are a beverage company. Our soft drink operation, Coca-Cola FEMSA, is the largest bottler of Coca-Cola products in Latin America and the second largest in the world, measured in terms of sales volumes in 2007, and our brewing operation, FEMSA Cerveza, is both a significant competitor in the Mexican and Brazilian beer markets 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, 2007 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.

Table of Contents

Coca-Cola FEMSA

Overview

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 2007. Coca-Cola FEMSA operates in the following territories:

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

Central America Guatemala (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 Goiás.

Coca-Cola FEMSA was organized on October 30, 1991 as a *sociedad anónima de capital variable* (a variable capital stock corporation) under the laws of Mexico with a duration of 99 years. On December 5, 2006, in response to amendments to the Mexican Securities Law, Coca-Cola FEMSA became a *sociedad anónima bursátil de capital variable* (a variable capital listed stock corporation). Coca-Cola FEMSA s principal executive offices are located at Guillermo González Camarena No. 600, Col. Centro de Ciudad Santa Fé, Delegación Álvaro Obregón, México, D.F., 01210, México. Coca-Cola FEMSA s telephone number at this location is (52-55) 5081-5100. Coca-Cola FEMSA s website is www.coca-colafemsa.com.

The following is an overview of Coca-Cola FEMSA s operations by segment in 2007:

Operations by Segment Overview

Year Ended December 31, 2007(1)

	Total Revenues	Percentage of Total Revenues	Income from Operations	Percentage of Income from Operations
Mexico	Ps. 32,550	47.0	Ps. 6,569	57.4
Central America	4,808	7.0	715	6.2
Colombia	6,933	10.0	1,242	10.9
Venezuela	9,785	14.1	572	5.0
Argentina	4,034	5.8	492	4.3
Brazil	11,141	16.1	1,857	16.2

(1) Expressed in millions of Mexican pesos, except for percentages.

Corporate History

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

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

Table of Contents

In May 2003, Coca-Cola FEMSA acquired Panamco and began producing and distributing *Coca-Cola* trademark beverages in additional territories in the central and the gulf regions of Mexico and in Central America (Guatemala, Nicaragua, Costa Rica and Panama), Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. As a result of the acquisition, the interest of The Coca-Cola Company in the capital stock of its company increased from 30% to 39.6%.

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, at the same price per share at which ourselves and The Coca-Cola Company subscribed in connection with the Panamco acquisition. On March 8, 2006, its shareholders approved the non-cancellation of the 98,684,857 Series L Shares (equivalent to approximately 9.87 million ADSs, or over one-third of the outstanding Series L Shares) that were not subscribed for in the rights offering which are available for issuance at an issuance price of no less than US$ 2.216 per share or its equivalent in Mexican currency.

On November 3, 2006, we acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA Series D Shares from certain subsidiaries of The Coca-Cola Company representing 9.4% of the total outstanding voting shares and 8.0% of the total outstanding equity, at a price of US$ 2.888 per share for an aggregate amount of US$ 427.4 million. With this purchase, we increased our ownership to 53.7% of Coca-Cola FEMSA capital stock. Pursuant to Coca-Cola FEMSA bylaws, the acquired shares were converted from Series D Shares to Series A Shares.

On November 8, 2007, a Mexican company owned directly or indirectly by Coca-Cola FEMSA and The Coca-Cola Company, acquired 100% of the shares of capital stock of Jugos del Valle. See Item 4. The Company Jugos del Valle Acquisition.

On May 30, 2008, Coca-Cola FEMSA entered into a purchase agreement with The Coca-Cola Company to acquire its wholly owned bottling franchise located in the state of Minas Gerais (Refrigerantes Minas Gerais Ltda., or REMIL) in Brazil.

On December 21, 2007 and on May 30, 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. These trademarks are now being licensed to Coca-Cola FEMSA by The Coca-Cola Company.

As of March 31, 2008, we indirectly owned Series A Shares equal to 53.7% of Coca-Cola FEMSA capital stock (63.0% of its capital stock with full voting rights), and The Coca-Cola Company indirectly owned Series D Shares equal to 31.6% of the capital stock of Coca-Cola FEMSA (37.0% of Coca-Cola FEMSA s 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 2007, with operations in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Argentina and Brazil. While its corporate headquarters are in Mexico City, it has established divisional headquarters in the following three regions:

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

Table of Contents

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 (1) implementing multi-segmentation strategies in its major markets to target distinct market clusters divided by competitive intensity and socioeconomic levels; (2) implementing well-planned product, packaging and pricing strategies through channel distribution; and (3) achieving operational efficiencies throughout its company. 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 product lines, participate in new beverage segments and effectively advertise and market its products;
- developing and expanding its still beverage portfolio through strategic acquisitions and by entering into joint ventures with The Coca-Cola Company;
- implementing packaging strategies designed to increase consumer demand for its products and to build a strong returnable base for the *Coca-Cola* brand selectively;
- replicating its 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 go-to-market strategies, including pre-sale, conventional selling and hybrid routes, in order to get closer to its clients and help them satisfy the beverage needs of consumers;
- expanding its bottled water strategy, in conjunction with The Coca-Cola Company through innovation and selective acquisitions to maximize its profitability across its market territories;
- committing to building a multi-cultural collaborative team, from top to bottom; and
- seeking to expand its geographical footprint.

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, it continues to introduce new products and new presentations. See Product and Packaging Mix. It also seeks to increase placement of refrigeration equipment, including promotional displays, 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, it 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. In each of 2005, 2006 and 2007, Coca-Cola FEMSA closed additional distribution centers. See Description of Property, Plant and Equipment. In each of its facilities, Coca-Cola FEMSA seeks to increase productivity in its facilities 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 The Coca-Cola Company and we 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.

Table of Contents

Coca-Cola FEMSA s 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 sparkling beverages and the per capita consumption of its sparkling beverages:

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

Table of Contents

Coca-Cola FEMSA s 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 sparkling beverages, water and still beverages in other categories such as juice drinks and isotonics. In December 2007, Coca-Cola FEMSA sold certain of its proprietary brands to The Coca-Cola Company. The following table sets forth its main brands as of March 31, 2008:

Colas:	**Mexico**	**Central America**	**Colombia**	**Venezuela**	**Brazil**	**Argentina**
Coca-Cola	ü	ü	ü	ü	ü	ü
Coca-Cola light	ü	ü	ü	ü	ü	ü
Coca-Cola Zero	ü		ü		ü	ü

Flavored Soft Drinks:	**Mexico**	**Central America**	**Colombia**	**Venezuela**	**Brazil**	**Argentina**
Aquarius Fresh					ü	
Chinotto				ü		
Crush			ü			ü
Fanta	ü	ü	ü		ü	ü
Fresca	ü	ü				
Frescolita		ü		ü		
Hit				ü		
Kuat					ü	
Lift	ü	ü	ü			
Mundet(1)	ü					
Quatro			ü			ü
Simba					ü	
Sprite	ü	ü	ü		ü	ü

Water:	**Mexico**	**Central America**	**Colombia**	**Venezuela**	**Brazil**	**Argentina**
Alpina		ü				
Ciel	ü					
Crystal					ü	
Manantial			ü			
Santa Clara(2)			ü			

Other Categories:	**Mexico**	**Central America**	**Colombia**	**Venezuela**	**Brazil**	**Argentina**
Dasani(3)		ü	ü			ü
Hi-C(4)		ü				ü
Jugos del Valle(4)	ü					
Nestea	ü	ü		ü	ü	
Powerade(5)	ü	ü	ü	ü		

(1) Brand licensed from FEMSA.

(2) Proprietary brand.

(3) Flavored no-calorie water. (In Argentina also as still water)

(4) Juice based drink.

(5) Isotonic.

Table of Contents

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 its historical sales volume for each of its territories.

	Sales Volume Year Ended December 31, (millions of unit cases)		
	2007	2006	2005
Mexico	1,110.4	1,070.7	1,025.0
Central America	128.1	120.3	109.4
Colombia	197.8	190.9	179.7
Venezuela	209.0	182.6	172.5
Argentina	179.4	164.9	150.1
Brazil(1)	296.1	268.7	252.5
Combined Volume	2,120.8	1,998.1	1,889.2

(1) Excludes beer sales volume.

Product and Packaging Mix

Coca-Cola FEMSA s most important brand is *Coca-Cola* and its line extensions, *Coca-Cola light*, *Coca-Cola light caffeine free* and *Coca-Cola Zero*, which together accounted for 62.7% of total sales volume in 2007. *Ciel* (including jug presentations), *Fanta, Sprite, Lift* and *Fresca*, its next largest brands in consecutive order, accounted for 10.8%, 6.9%, 2.9%, 1.6% and 1.4%, respectively, of total sales volume in 2007. 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 it 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 its *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 Coca-Cola FEMSA 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, it sells some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which it refers to as fountain. It also sells bottled water products in jug sizes, which refers to sizes larger than 17 liters, that have a much lower price per unit case 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. Coca-Cola FEMSA sells certain of these brands or their line extensions at a premium in some of its territories, in which case it refers to them as premium brands. It also sells certain other brands at a lower price per ounce, which it refers to as value protection brands.

The characteristics of its territories are very diverse. Central Mexico and its territories in Argentina are densely populated and have a large number of competing sparkling beverages brands as compared to the rest of its territories. Brazil is densely populated but has lower per capita consumption of sparkling beverage products as compared to Mexico. Portions of southern Mexico, Central America and Colombia are large and mountainous areas with lower population density, lower per capita income and lower per capita

Table of Contents

consumption of sparkling beverages. In Venezuela, per capita consumption of Coca-Cola FEMSA products has improved in spite of short-term operating disruptions over the past few years.

The following discussion analyzes Coca-Cola FEMSA s product and packaging mix by segment. The volume data presented is for the years 2007, 2006 and 2005.

Mexico. Coca-Cola FEMSA s product portfolio consists of *Coca-Cola* trademark beverages, and since 2001 has included the *Mundet* trademark beverages. In 2007, as part of its efforts to strengthen the *Coca-Cola* brand it launched *Coca-Cola Zero,* a line extension of the *Coca-Cola* brand. Sparkling beverage per capita consumption of its products in its Mexican territories in 2007 was 414 eight-ounce servings.

The following table highlights historical sales volume and mix in Mexico for its products:

	Year Ended December 31,		
	2007	**2006**	**2005**
Product Sales Volume		**(millions of unit cases)**	
Total	1,110.4	1,070.7	1,025.0
% Growth	3.7%	4.5%	3.5%
Unit Case Volume Mix by Category		**(in percentages)**	
Sparkling beverages	78.3%	79.6%	79.6%
Water[(1)]	20.7	19.5	19.7
Still beverages	1.0	0.9	0.7
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

Coca-Cola FEMSA s most popular sparkling beverage 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 52% of total sparkling beverage sales volume in Mexico in 2007. In 2007, multiple serving presentations represented 62.4% of total sparkling beverages sales volume in Mexico, a 2.2% growth compared to 2006. Coca-Cola FEMSA s commercial strategies seek to foster consumption in single serving presentations while maintaining multiple serving volumes. In 2007, its sparkling beverages non-returnable presentations slightly increased as a percentage of its total sales volume from 69.5% in 2006 to 71.8% in 2007.

Total sales volume reached 1,110.4 million unit cases in 2007, an increase of 3.7% compared to 1,070.7 million unit cases in 2006. Sparkling beverages sales volume grew 2.1%, accounting for almost 50% of the total incremental volumes during the year. Sparkling beverages volume growth was mainly driven by strong growth of the *Coca-Cola* brand.

Central America. Coca-Cola FEMSA s product sales in Central America consist predominantly of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption in Central America of its products was 150 eight-ounce servings in 2007.

Table of Contents

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

	Year Ended December 31,		
	2007	2006	2005
Product Sales Volume		(millions of unit cases)	
Total	128.1	120.3	109.4
% Growth	6.5%	10.0%	(1.1)%
Unit Case Volume Mix by Category		(in percentages)	
Sparkling beverages	89.7%	90.9%	93.6%
Water	4.3	4.4	4.3
Still beverages	6.0	4.7	2.1
Total	100.0%	100.0%	100.0%

In 2007, multiple serving presentations represented 51.8% of total sparkling beverage sales volume in Central America, compared with 50.6% in 2006.

Total sales volume was 128.1 million unit cases in 2007, increasing 6.5% compared to 120.3 million in 2006. Sparkling beverages volumes in the year accounted for more than 70% of its total incremental volume and still beverages were the majority of the balance.

Colombia. Coca-Cola FEMSA s product portfolio in Colombia consists of *Coca-Cola* trademark beverages, certain products sold under proprietary trademarks and other brands, which it licenses from third parties. Sparkling beverages per capita consumption of its products in Colombia during 2007 was 90 eight-ounce servings.

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

	Year Ended December 31,		
	2007	2006	2005
Product Sales Volume		(millions of unit cases)	
Total	197.8	190.9	179.7
% Growth	3.6%	6.2%	7.5%
Unit Case Volume Mix by Category		(in percentages)	
Sparkling beverages	87.6%	87.9%	87.9%
Water(1)	11.0	10.9	11.7
Still beverages	1.4	1.2	0.4
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

In 2007, multiple serving presentations represented 49.9% of total sparkling beverages sales volume in Colombia. In 2008, as part of its efforts to strengthen the *Coca-Cola* brand, Coca-Cola FEMSA launched *Coca-Cola Zero,* a line extension of the *Coca-Cola* brand.

Total sales volume was 197.8 million unit cases in 2007, an increase of 3.6% compared to 190.9 million in 2006, driven by sparkling beverages volume growth, which accounted for more than 80% of total incremental volume.

Venezuela. Coca-Cola FEMSA s product portfolio in Venezuela consists predominantly of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption of its products in Venezuela during 2007 was 165 eight-ounce servings.

29

Table of Contents

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

	Year Ended December 31,		
	2007	2006	2005
Product Sales Volume		(millions of unit cases)	
Total	209.0	182.6	172.5
% Growth	14.5%	5.9%	(0.1)%
Unit Case Volume Mix by Category		(in percentages)	
Sparkling beverages	90.4%	87.7%	86.6%
Water(1)	5.7	7.5	8.7
Still beverages	3.9	4.8	4.7
Total	100.0%	100.0%	100.0%

(1) Includes jug volume.

During 2007 Coca-Cola FEMSA continued facing periodic operating difficulties that prevented it from producing and distributing enough supply. It has implemented a product portfolio rationalization strategy, which enabled it to increase its total sales volume for the year by 14.5%.

In 2007, multiple serving presentations represented 90.4% of total sparkling beverages sales volume in Venezuela. Total sales volume was 209.0 million unit cases in 2007, an increase of 14.5% compared to 182.6 million in 2006, driven by volume growth in the sparkling beverage segment.

Argentina. Coca-Cola FEMSA s product portfolio in Argentina consists exclusively of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption of its products in Argentina during 2007 was 370 eight-ounce servings.

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

	Year Ended December 31,		
	2007	2006	2005
Product Sales Volume		(millions of unit cases)	
Total	179.4	164.9	150.1
% Growth	8.8%	9.8%	4.0%
Unit Case Volume Mix by Category		(in percentages)	
Sparkling beverages	96.2%	96.6%	97.3%
Water	1.0	1.2	1.4
Still beverages	2.8	2.2	1.3
Total	100.0%	100.0%	100.0%

During 2007, returnable packaging accounted for 25.2% of total sales volume in Argentina in 2007 as compared to 24.7% in 2006. In 2006, as part of Coca-Cola FEMSA s efforts to strengthen the *Coca-Cola* brand it launched *Coca-Cola Zero,* a line extension of the *Coca-Cola* brand.

Total sales volume reached 179.4 million unit cases in 2007, an increase of 8.8% compared with 164.9 million in 2006. The majority of the volume growth came from its non-returnable presentations, which represented over 60% of the sales volume increase. In 2007, multiple serving presentations for sparkling beverages remained flat at 83.7%.

Brazil. Coca-Cola FEMSA s product portfolio in Brazil consists mainly of *Coca-Cola* trademark beverages and certain products sold under proprietary trademarks and the *Kaiser* beer brand, which Coca-Cola FEMSA sells and distributes on our behalf. Sparkling beverage per capita consumption of its products in Brazil during 2007 was 220 eight-ounce servings.

Table of Contents

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

	Year Ended December 31,		
	2007	**2006**	**2005**
Product Sales Volume		**(millions of unit cases)**	
Total	296.1	268.7	252.5
% Growth	10.2%	6.4%	11.0%
Unit Case Volume Mix by Category		**(in percentages)**	
Sparkling beverages	91.7%	91.7%	92.3%
Water	6.7	7.3	6.9
Still beverages	1.6	1.0	0.8
Total	100.0%	100.0%	100.0%

During 2007 almost 100% of its incremental volumes of sparkling beverages were in non-returnable presentations.

Total sales volume was 296.1 million unit cases in 2007, an increase of 10.2% compared to 268.7 million in 2006. This increase included 10.3% sparkling beverage volume growth during the year. In 2007, as part of its efforts to strengthen the *Coca-Cola* brand Coca-Cola FEMSA launched *Coca-Cola Zero,* a line extension of the *Coca-Cola* brand.

Coca-Cola FEMSA sells and distributes the *Kaiser* brands of beer in its territories in Brazil. In January 2006, we acquired an indirect controlling stake in Cervejarias Kaiser. Coca-Cola FEMSA continues 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 Coca-Cola FEMSA distributes in Brazil in its sales volumes. However, for comparability purposes, sales volumes presented in this report do not include beer sales for 2005, 2006 and 2007.

Jugos del Valle Acquisition

On October 10, 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican joint venture company owned directly or indirectly by Coca-Cola FEMSA and The Coca-Cola Company, launched a public tender offer to buy 100% of the outstanding capital stock of Jugos del Valle, for approximately US$ 370 million in cash, equivalent to a price of US$ 6.3409 per share, assuming liabilities of approximately US$ 86 million.

On November 8, 2007, Administración, upon the expiration of the public tender offer, acquired 100% of the shares of capital stock of Jugos del Valle. This transaction was approved by the Mexican regulatory authorities and was carried out in Mexico. Jugos del Valle produces and sells fruit juices, beverages and other fruit derivatives. It is based in Mexico but markets its products internationally, particularly in Brazil and the United States of America.

Coca-Cola FEMSA and The Coca-Cola Company invited all Mexican and Brazilian *Coca-Cola* bottlers to participate in a joint venture in the Mexican and Brazilian business, respectively, of Jugos del Valle on the same basic terms and conditions. In Mexico and Brazil, all of the *Coca-Cola* bottlers agreed to participate in the corresponding sale of the shares, which is expected to be completed during 2008. Coca-Cola FEMSA will hold a stake of approximately 20% in the Mexican joint venture.

Beginning in February 2008, Coca-Cola FEMSA began to distribute Jugos del Valle brand juice-based beverages in its Mexican operations.

Table of Contents

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 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. Its marketing expenses in 2007, net of contributions by The Coca-Cola Company, were Ps. 2,606 million. The Coca-Cola Company contributed an additional Ps. 1,582 million in 2007. Through the use of advanced information technology, it 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.

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 cooler distribution 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. It 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. Its 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 the majority of its markets. This strategy consists on 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 on 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.

Table of Contents

Product Distribution

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

Product Distribution Summary

as of December 31, 2007

	Mexico	Central America	Colombia	Venezuela	Argentina	Brazil
Distribution Centers	84	29	37	32	5	12
Retailers (in thousands)[1]	600.1	110.9	346.0	233.8	80.9	126.6

(1) Estimated.

Coca-Cola FEMSA continually evaluates its distribution model in order to fit with the local dynamics of the market place. Coca-Cola FEMSA is currently analyzing the way it goes to market, recognizing different service needs from its customers, while looking for a more efficient distribution model. As part of this strategy, Coca-Cola FEMSA is rolling out a variety of new distribution models throughout its territories looking for improvements in its distribution network.

Coca-Cola FEMSA use 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. Coca-Cola FEMSA also begun to use a hybrid distribution system in some of its territories, where the same truck holds product available for immediate sale and product previously ordered through the pre-sale system. As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which it believes enhance the presentation of its products at the point of sale. 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. In certain areas, Coca-Cola FEMSA also makes sales through third party wholesalers of its products. The vast majority of its sales are on a cash basis.

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. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. From the distribution centers, it then distributes its finished products to retailers through its own fleet of trucks. During 2007, it closed 8 out of 92 distribution centers in its Mexican operations.

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.

Territories other than Mexico. 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 2007, Coca-Cola FEMSA operated 29, 37, 32, 5 and 12 distribution centers in its Central American territories, Colombia, Venezuela, Argentina and Brazil, respectively.

Table of Contents

In most of its territories, an important part of its total sales volume is through small retailers, with low supermarket penetration. In contrast, in Brazil Coca-Cola FEMSA sold more than 21% of its total sales volume through supermarkets in 2007. Also in Brazil, the delivery of its finished products to customers is by a third party. In designated zones in Brazil, third-party distributors purchase its products at a discount from the wholesale price and resell the products to retailers.

Competition

Although we believe that Coca-Cola FEMSA s products enjoy wider recognition and greater consumer loyalty than those of its principal competitors, the soft drink segments in the territories in which it 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. A number of its competitors in Central America, Venezuela, Argentina 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. In central Mexico Coca-Cola FEMSA competes with a subsidiary of PBG, the largest bottler of Pepsi products globally, and Grupo Embotelladores Unidos, S.A.B. de C.V., the Pepsi bottler in central and southeast Mexico. In addition, Coca-Cola FEMSA competes with Cadbury Schweppes and with other national and regional brands in its Mexican territories. Coca-Cola FEMSA also competes with 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, it 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. Coca-Cola FEMSA also faces 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 it refers 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. In the second half of 2007, Big Cola, a B brand producer, started operations in Colombia, increasing competition in multi serving size presentations. Coca-Cola FEMSA expects competition to intensify in 2008.

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 Buenos Aires Embotellador (BAESA), a Pepsi bottler, which is owned by Argentina s principal brewery, Quilmes Industrial S.A., and indirectly controlled by AmBev. In addition, Coca-Cola FEMSA competes with a number of competitors offering generic, low priced soft drinks as well as many other generic products and private label proprietary supermarket brands.

Table of Contents

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. Coca-Cola FEMSA 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.

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 it charges to its retailers in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company.

In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three year period in Mexico beginning in 2007, and in Brazil in 2006. As part of the new cooperation framework that Coca-Cola FEMSA arrived at with The Coca-Cola Company at the end of 2006, The Coca-Cola Company will provide a relevant portion of the funds derived from the incidence increase to marketing support of the sparkling and still beverages portfolio. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders New Cooperation Framework with The Coca-Cola Company.

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. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for the soft drink. Its 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 and high fructose corn syrup 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 global resin supply, and in the last years it has experienced volatility in the prices it pays for these materials. In Mexico, its average price for resin remained relatively stable during 2007.

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 it 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 in certain countries. Coca-Cola FEMSA has experienced sugar price volatility in these territories as a result of changes in local conditions, regulations and the stronger correlation to oil prices recently due to the use of sugar in alternative fuels.

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 mainly purchase 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., known as ALPLA, manufactures into non-returnable plastic bottles for it.

Table of Contents

Coca-Cola FEMSA mainly purchases sugar from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of *Coca-Cola* bottlers, in which it holds a 5.0% equity interest. 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 sparkling beverages 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 sparkling beverages 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 initiated proceedings in Mexican federal court against this excise tax that allowed it to cease paying the tax in 2005 and 2006. Coca-Cola FEMSA also resumed the use of high fructose corn syrup as a sweetener. At the end of 2006, effective beginning in 2007, the Mexican government removed this excise tax. The government has also agreed to give back to the former owners the sugar mills expropriated in 2001, the process has begun and the majority of the sugar mills have being given back to their former owners.

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. In 2006 and 2007, sugar prices increased.

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, in certain countries that comprised the region, are significantly higher than international market prices and its 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. 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, which it purchase mainly from the local market. Since 2003, it has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permissions to import. However, it was able to meet its sugar requirements through imports. Coca-Cola FEMSA 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.

Argentina. In Argentina, Coca-Cola FEMSA uses high fructose corn syrup from several different local suppliers as a 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 its can presentations and juice-based products for distribution to customers in Buenos Aires from CICAN S.A., which is directly or indirectly owned 100.0% by it after giving effect to the acquisition of the remaining 51.1% in November 2007.

Brazil. Sugar is widely available in Brazil at local market prices, which historically have been lower than international prices. Sugar prices in Brazil in recent periods have been volatile and Coca-Cola FEMSA s average acquisition cost for sugar in 2007 decreased. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

FEMSA Cerveza

Overview and Background

FEMSA Cerveza produces beer in Mexico and Brazil and exports its products to 47 countries worldwide, with North America being its most important export market, followed by certain markets in Europe, Latin America and Asia. In 2007, FEMSA Cerveza was ranked the twelfth-largest brewer in the world in terms of sales volume. In Mexico, its main market, FEMSA Cerveza is the second largest beer producer in terms of sales volume. In 2007, approximately 67.5% of FEMSA Cerveza s sales volume came from Mexico, with the remaining 24.5% from Brazil and 8.0% from exports. In 2007, FEMSA Cerveza sold 39.940 million hectoliters of beer.

FEMSA Cerveza s principal operating subsidiaries are Grupo Cuauhtémoc Moctezuma, S.A. de C.V., which operates six breweries in Mexico, Cervejarias Kaiser Brasil S.A., or Kaiser, which operates eight breweries in Brazil, and Cervezas Cuauhtémoc Moctezuma, S.A. de C.V., which operates our company-owned distribution centers across Mexico.

Our management has identified Brazil as one of the most attractive and profitable beer markets in the world. Accordingly, in January 2006, FEMSA Cerveza acquired a 68% equity stake in the Brazilian brewer Kaiser from The Molson Coors Brewing Co., or Molson Coors, for US$68 million, at the same time receiving indemnity rights for certain tax contingencies of Kaiser. Molson Coors later completed its exit from the Brazilian market in December 2006 by exercising a put option to sell its 15% stake in Kaiser to FEMSA Cerveza for US$15.6 million. Under the terms of the agreements governing FEMSA Cerveza s original acquisition of Kaiser in January 2006, FEMSA Cerveza s indemnity rights for certain tax contingencies provided by Molson Coors increased proportionately with the incremental 15% stake it acquired. In addition, on December 22, 2006, FEMSA Cerveza completed a capital increase of US$200 million in Kaiser. FEMSA Cerveza was the only shareholder to participate in the capital increase, and as a result of this transaction, FEMSA Cerveza owned 99.83% and Heineken N.V. was diluted from 17% to 0.17%. In August 2007, FEMSA Cerveza and Heineken N.V. closed a stock purchase agreement whereby Heineken NV purchased the shares necessary to regain its 17% interest in Kaiser. As a result of these transactions, FEMSA Cerveza owns 83% of Kaiser and Heineken N.V. owns 17%.

Beer Sales Volume

FEMSA Cerveza volume figures contained in this annual report refer to invoiced sales volume of beer. In Mexico, 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. In Brazil, invoiced sales volume represents the quantity of hectoliters of beer sold by Kaiser. Kaiser sells its products primarily to the Brazilian *Coca-Cola* bottlers, which sell and distribute Kaiser beers in their respective territories. The term hectoliter means 100 liters or approximately 26.4 U.S. gallons.

FEMSA Cerveza s total beer sales volume totaled 39.940 million hectoliters in 2007, an increase of 5.9% from total sales volume of 37.697 million hectoliters in 2006. In 2007, FEMSA Cerveza s Mexican beer sales volume increased by 3.9% to 26.962 million hectoliters, Brazil sales volume increased by 9.6% to 9.795 million hectoliters and export beer sales volume increased by 13.2% to 3.183 million hectoliters. Brazil sales volume prior to 2006 is not reported as the operation was not owned or operated by FEMSA Cerveza before January 2006.

FEMSA Cerveza Total Beer Sales Volumes

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands of hectoliters)				
Mexico beer sales volume	26,962	25,951	24,580	23,442	22,582
Brazil beer sales volume	9,795	8,935	NA	NA	NA
Export beer sales volume	3,183	2,811	2,438	2,240	1,982
Total beer sales volume	39,940	37,697	27,018	25,682	24,564

FEMSA Cerveza s Mexican beer sales volume recorded a compounded average growth rate of 4.5% while growth in the Mexican beer industry increased 4.1% for the period from 2003 through 2007. This compares with the 3.8% compounded average growth rate of the Mexican gross domestic product for the same period. FEMSA Cerveza s Mexican beer sales for the same period recorded a 6.1% compounded average growth rate. FEMSA Cerveza s export sales volume recorded a compound average growth rate of 12.6% for the same period, while the compound average growth rate for FEMSA Cerveza export sales was 17.8%.

Femsa Cerveza s Strategy

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.

Mexico Operations

The Mexican Beer Market

The Mexican beer market was the eighth largest beer market in the world in terms of industry sales volume in 2007 and is 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.

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

Table of Contents

Historically, beer imports have not been a significant factor in the Mexican beer market, primarily due to the Mexican consumer preference of Mexican brands. In 2007, this segment accounted for approximately 2.3% of total Mexican beer market in terms of sales volume. FEMSA Cerveza believes that the elimination of tariffs imposed on imported beers has had a limited effect on the Mexican beer market due to the fact that 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, and also given the dynamics of the beer market, where the point of sale is highly fragmented. Periods of relative strength of the Mexican peso with respect to the U.S. dollar, however, 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.

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 2007 Total Population**	**Percent of Total 2007 Gross Domestic Product**	**Per Capita 2007 Gross Domestic Product(1)**
Northern	26.9%	33.6%	Ps. 106.1
Southern	22.9	15.3	56.9
Central	50.2	51.1	86.8
Total	100.0%	100.0%	Ps. 85.2

(1) Thousands of pesos

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.

Prior to 2005, federal taxes on beer consisted of a 15% value-added tax and an excise tax which is 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.

Table of Contents

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 59 liters in 2007. 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 38% 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 0.8% per year over the period from 2008 to 2012. We estimate that over the next 10 years approximately in excess of 1.5 million additional people per year will become potential beer consumers due to the natural aging of the Mexican population.

In 2007, estimated annual per capita beer consumption was approximately 59 liters in Mexico, as compared to approximately 82 liters in the United States.

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 Mexico 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 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, 2006 and 2007, beer sales volume growth outpaced growth in Mexico s gross domestic product. In 2006, beer sales volume growth was the highest in the last ten years due to the strong economy, which boosted consumption of our products.

Beer Prices

During 2005, FEMSA Cerveza increased prices in Mexico in line with inflation. In 2006, FEMSA Cerveza again increased prices, however, the increase in prices in 2006 was below the average increase registered in the Mexican consumer price index. During 2007, FEMSA Cerveza increased prices to partially compensate for the increase in raw material prices.

Table of Contents

According to the Bank of Mexico s consumer beer price index, for the Mexican beer industry as a whole, average consumer beer prices increased 2.9% in nominal terms in 2007, which means that the prices were flat in real terms. The following table shows relative real average retail prices since 2003 for the Mexican beer industry:

Mexican Beer Industry

Cumulative Real Consumer Beer Price Index: 2003-2007

Year Ended December 31,				
2007	**2006**	**2005**	**2004**	**2003**
93.7	94.8	94.9	98.0	100.0

Source: Bank of México

Product Overview

As of December 31, 2007, in Mexico FEMSA Cerveza produced and/or distributed 21 brands of beer in 14 different presentations resulting in a portfolio of 102 different product offerings. The most important brands in FEMSA Cerveza s Mexican portfolio include: *Tecate, Sol, Carta Blanca* and *Indio.* These four brands, all of which are distributed nationwide in Mexico, accounted for approximately 89% of FEMSA Cerveza s Mexico beer sales volume in 2007.

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.

Beer Presentations

In its Mexican operations, 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.

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. 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. During periods when the Mexican economy is weak, returnable sales volume generally increase at a faster rate relative to non-returnable sales volume, given that non-returnable bottles are a more expensive presentation.

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. However, we believe that demand for these presentations is highly sensitive to economic factors because of their higher prices. The vast majority of export sales are in non-returnable presentations.

Relative Pricing

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. 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.

Table of Contents

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. In recent years, FEMSA Cerveza has achieved infrastructure and personnel efficiencies through the integration of company-owned distribution centers. The results of these efficiencies have been partially diminished by the acquisition of third party distribution centers. FEMSA Cerveza has increased its directly distributed volume in respect of its Mexican beer sales volume to 85%, operating through 234 company-owned distribution centers. The remaining 15% of the beer sales volume was sold through 68 third party distribution centers, 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 Mexico 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 5,500 convenience stores under the trade name OXXO that exclusively sell FEMSA Cerveza s brands.

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. FEMSA Cerveza has completed the pre-sale process in all of its company-owned distribution centers. 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.

As of December 31, 2007, FEMSA Cerveza serves more than 340,000 retailers in Mexico and its distribution network operates approximately 2,137 retail distribution routes.

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 in Mexico and correlate them with the administrative and business development decision-making process occurring in FEMSA Cerveza s central office. The Mexican beer sales volume of all FEMSA Cerveza s company-owned distribution centers, including our main third party distributors, operates through ERP.

Table of Contents

Marketing Strategy

FEMSA Cerveza focuses on the consumer by segmenting markets and positioning its brands, accordingly, striving to develop brand and packaging portfolios that provide the best alternatives for every consumption occasion at the appropriate price. By segmenting its markets, we refer to the technique whereby we design and execute relevant and distinctive positioning and communication strategies that allow us to satisfy different consumer needs. Continuous market research provides feedback that is used to develop 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 a supermarket, beer depot or restaurants. 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.

FEMSA Cerveza has implemented a program called Innovation to efficiently enable corporate growth strategies. This program, which relies on our extensive consumer and market research practices, seeks the development of new packaging and product alternatives that allow us to capture new consumers and to strengthen the presence of our brands through brand line extensions. Innovation has been a key priority at FEMSA Cerveza and has been implemented throughout the value chain with the objective of allowing FEMSA Cerveza to continue to offer different options to consumers.

Plants and Facilities

FEMSA Cerveza currently operates six breweries in Mexico with an aggregate monthly production capacity of 2.88 million hectoliters, equivalent to approximately 34.6 million hectoliters of annual capacity. Each of FEMSA Cerveza s Mexican breweries have received ISO 9001 and 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.

Table of Contents

FEMSA Cerveza Mexico Facility Capacity Summary

Year Ended December 31, 2007

Brewery	Average Annualized Capacity (in thousands of hectoliters)
Orizaba	8,100
Monterrey	7,800
Toluca	5,400
Navojoa	5,400
Tecate	4,680
Guadalajara	3,216
Total	34,596
Average capacity utilization	85.7%

Between 2003 and 2007, FEMSA Cerveza increased its average monthly production capacity by approximately 175,000 hectoliters through additional investments in existing facilities.

44

Table of Contents

During 2005, FEMSA Cerveza opened a new malt production facility in Puebla, Mexico, increasing its malting capacity by 16% to 154,000 tons per year. This facility covers an area of 18,000 square meters and 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.

In November 2007, FEMSA Cerveza announced an investment of US$275 million for the construction of a new brewery in Meoqui, Chihuahua, in Northern Mexico, which will begin operating in 2010. In its first stage, the new brewery will have an annual production capacity of 5 million hectoliters, an increase of 15% over FEMSA Cerveza s current capacity in its Mexican territories.

Glass Bottles and Cans

FEMSA Cerveza produces (1) beverage cans and can ends, (2) glass bottles and (3) crown caps for glass bottle presentations principally to meet the packaging needs of its Mexican operations. The packaging 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 Mexico Glass Bottle and Beverage Can Operations Product Summary

Year Ended December 31, 2007

Product	Location	Annual Production Capacity(1)	% Average Capacity Utilization
Beverage cans	Ensenada	1,700	100.0
	Toluca	2,400	100.0
		4,100	100.0
Can ends	Monterrey	4,600	100.0
Crown cap	Monterrey	18,000	85.0
Glass bottles	Orizaba	1,190	80.6
Bottle decoration	Nogales	330	60.3
Silica sand	Acayucan	550	95.3

(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 2007, 60.3% 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 2007, 82.8% of the glass bottle volume produced by these plants was used by FEMSA Cerveza, and the remaining 17.2% was sold to Coca-Cola FEMSA.

In addition to the construction of the new brewery in Meoqui, Chihuaha, FEMSA Cerveza announced a US$117 million investment for the construction of a new glass bottle facility in Meoqui, which will also begin operations in 2010.

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 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, and will decrease FEMSA Cerveza s margins 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 in Mexico is insufficient to meet the industry s requirements, barley (or its equivalent in malt) can be obtained from international markets. Raw material prices have increased in recent years, and in particular the price for barley due to the fact that for two consecutive years the harvests of Europe and Australia (two of the largest producers) have fallen because of droughts and untimely rains. Additionally, the price of wheat, which is not an ingredient of our beers, but competes for land with barley and other grains, has increased drastically due to fallen harvests, and therefore, the price of wheat is adding pressure to the price of grains worldwide.

Hops are the only ingredient that is not available domestically in Mexico. FEMSA Cerveza imports hops primarily from the United States and Europe.

Brazil Operations

The Brazilian Beer Market

The Brazilian beer market was the fifth largest beer market in the world in terms of industry sales volume in 2007 and is characterized by (1) concentrated domestic beer production, (2) favorable demographics in the beer drinking population, and (3) a fragmented retail channel.

Concentrated Brazilian beer production

The Brazilian beer market is comprised of one large producer holding substantial market share, three medium sized producers, and some minor regional brewers. The large producer is Companhia de Bebidas das Americas or AmBev, a publicly traded company based in Sao Paulo that is majority-owned by the Belgian brewer Inbev. AmBev s principal beer brands are *Skol, Brahma* and *Antarctica.* AmBev is also a large bottler of sparkling beverages, with brands such as *Guaraná Antarctica* and *Pepsi Cola.* The three medium sized producers are FEMSA Cerveza, Grupo Schincariol, whose main brand is *Nova Schin*, and Cervejaria Petropolis, whose main brand is *Crystal*. FEMSA Cerveza s sales in the Brazilian market depend on its ability to compete in a complex competitive environment with a large producer with predominant market share and two strong regional local brewers. Historically, beer imports have not been a significant factor in the Brazilian beer market, but are increasing as the super premium beer segment develops.

Demographics of beer drinking population

We estimate that annual per capita beer consumption for the total Brazilian population reached approximately 54 liters in 2007. The legal drinking age is 18 in Brazil. We consider the population segment of men between the ages of 18 and 45 to be FEMSA Cerveza s primary market. Approximately 37% of the Brazilian population is under the age of 18 and, therefore, is not considered to be part of the beer drinking population.

Table of Contents

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 Brazil. Based on historical trends as measured by the *Instituto Brasileiro de Geografia e Estadística* (Brazilian Institute of Statistics), or IBGE, we expect the Brazilian population to grow at an average annual rate of approximately 1.3% per year over the period from 2008 to 2012. We estimate that over the next 10 years approximately in excess of 3 million additional people per year will become potential beer consumers due to the natural aging of the Brazilian population.

Product Overview

As of December 31, 2007, in Brazil FEMSA Cerveza produced and/or distributed 12 brands of beer in 7 different presentations resulting in a portfolio of 37 different product offerings. The most important brands in FEMSA Cerveza s Brazilian portfolio include: *Kaiser, Bavaria, Sol, Heineken* and *Xingu.* These five brands, all of which are distributed nationwide in Brazil, accounted for approximately 98% of FEMSA Cerveza s Brazil beer sales volume in 2007.

Beer Presentations

In its Brazilian breweries, FEMSA Cerveza produces and distributes beer in returnable glass bottles and kegs and in non-returnable aluminum cans and glass bottles. In the Brazilian beer market, the most popular presentation is the 600 ml returnable bottle because of the affordability of this presentation combined with its popularity in the on-premise segment. However, in the past years the sales volume mix has slightly shifted towards non-returnable presentations, which can be attributed in part to improvements in the Brazilian economy.

Primary Distribution

FEMSA Cerveza s primary distribution in Brazil is from its production facilities to the warehouses of the various Coca-Cola franchise bottlers in Brazil. There are 19 Coca-Cola bottlers across Brazil, each responsible for a certain geographic territory including subsidiaries of Coca-Cola FEMSA.

Retail Sales and Distribution

FEMSA Cerveza relies on the 19 different bottlers of the Coca-Cola system across Brazil for the sale and secondary distribution of our beers. The bottlers leverage their infrastructure, sales force, expertise, distribution assets and refrigeration equipment at the point of sale to offer a broad portfolio of products to the retailer.

Plants and Facilities

FEMSA Cerveza currently operates eight breweries in Brazil with an aggregate monthly production capacity of 1.7 million hectoliters, equivalent to approximately 20 million hectoliters of annual capacity. Six of FEMSA Cerveza s eight Brazilian breweries have received ISO 9001 14.000 and OHASA 18.000 certifications. Two breweries were ISO 9001 certificated during 2007. 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 Brazilian breweries are strategically located across the country, as shown in the table below, to better serve FEMSA Cerveza s distribution system.

Table of Contents

FEMSA Cerveza Brazil Facility Allocation

as of December 31, 2007

FEMSA Cerveza Brazil Facility Capacity Summary

Year Ended December 31, 2007

Brewery	Average Annualized Capacity (in thousands of hectoliters)
Jacareí	7,800
Ponta Grossa	3,100
Araraquara	2,800
Feira de Santana	2,000
Pacatuba	1,800
Gravataí	1,700
Cuiabá	400
Manaus	400
Total	20,000
Average capacity utilization	49%

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 one of its greatest potential market outside of Mexico.

Table of Contents

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. In April 2007, FEMSA Cerveza and Heineken USA entered into a new ten-year agreement pursuant to which Heineken USA will continue to be the exclusive importer, marketer and distributor of FEMSA Cerveza s beer brands in the United States. This agreement went into effect on January 1, 2008.

Export beer sales volume of 3.183 million hectoliters in 2007 represented 8.0% of FEMSA Cerveza s total beer sales volume and accounted for 10.9% 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,				
	2007	**2006**	**2005**	**2004**	**2003**
Export beer sales volume(1)	3,183	2,811	2,438	2,240	1,982
Volume growth(2)	13.2%	15.3%	8.8%	13.0%	1.4%
Percent of total beer sales volumes(3)	8.0%	7.4%	9.0%	8.7%	8.1%
Mexican pesos(4) (millions)	3,339	2,977	2,717	2,008	1,737
U.S. dollars(5) (millions)	299	256	227	156	133
Revenue growth (US$)(2)	16.5%	13.0%	45.8%	16.7%	4.6%
Percent of total beer sales	8.4%	8.1%	10.2%	8.1%	7.2%

Source: FEMSA Cerveza.

(1) Thousands of hectoliters.

(2) Percentage change over prior year.

(3) Information prior to 2006 does not include Kaiser sales volume.

(4) Constant Mexican pesos at December 31, 2007.

(5) Export beer sales are invoiced and collected in U.S. dollars.

FEMSA Cerveza currently exports its products to 47 countries. The principal export market for FEMSA Cerveza is North America, which accounted for 89% of FEMSA Cerveza s export beer sales volume in 2007.

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, 2007.

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, 2007, under the trade name OXXO. As of December 31, 2007, FEMSA Comercio operated 5,563 OXXO stores located in 31 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 2007, sales of beer through OXXO represented 11% of FEMSA Cerveza s domestic beer sales volume as well as approximately 13.4% of FEMSA Comercio s revenues. In 2007, a typical OXXO store carried 1,800 different store keeping units (SKUs) in 31 main product categories.

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 675, 706 and 716 net new OXXO stores in 2005, 2006 and 2007, respectively. The accelerated expansion yielded total revenue growth of 14.3% to reach Ps. 42,103 million in 2007, while same store sales increased 3.3%, which was considerably higher than the retail industry average. FEMSA Comercio performed approximately 1,357 million transactions in 2007 compared to 1,168 million in 2006.

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. All products carried through OXXO stores are bar-coded, and all 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 has implemented 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 5,563 OXXO stores in Mexico as of December 31, 2007, 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.

Table of Contents

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,				
	2007	**2006**	**2005**	**2004**	**2003**
Total OXXO stores	5,563	4,847	4,141	3,466	2,798
Store growth (% change over previous year)	14.8%	17.0%	19.5%	23.9%	26.3%

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, 2003 and 2007, the total number of OXXO stores increased by 2,765, which resulted from the opening of 2,874 new stores and the closing of 109 existing stores.

Competition

OXXO competes in the convenience store segment of the retail market with 7-Eleven, Super Extra, Super City, 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, 2007, there were approximately 8,898 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 31 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 67% 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 186 square meters and, when parking areas are included, the average store size increases to approximately 440 square meters.

FEMSA Comercio Operating Indicators

	Year Ended December31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(percentage increase compared to previous year)				
Total FEMSA Comercio revenues	14.3%	18.7%	21.8%	24.8%	24.5%
OXXO same-store sales(1)	3.3%	8.2%	8.7%	8.9%	8.2%
	(percentage of total)				
Beer-related data:					
Beer sales as % of total store sales	13.4%	13.5%	13.0%	13.4%	12.8%
OXXO store sales as a % of FEMSA Cerveza s volume	11.0%	9.9%	8.6%	7.3%	5.4%

(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 76% 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.

Table of Contents

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 56% 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 nine regional warehouses located in Monterrey, Mexico City, Guadalajara, Mexicali, Mérida, León, Obregón, Puebla and Chihuahua. The distribution centers operate a fleet of approximately 242 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

Our other business 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, 2007. In 2007, this business sold 161,519 refrigeration units, 16.0 % of which were sold to FEMSA Cerveza, 32.3% 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 335,081 thousands meters of flexible packaging. In 2007, this business sold 46% of its label sales volume to FEMSA Cerveza, 21% to Coca-Cola FEMSA and 33% 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, 2007, 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 12.7% 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, 2007

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	45
	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	50
	Toluca, Estado de México	Soft Drink Bottling Plant	242
	Celaya, Guanajuato	Soft Drink Bottling Plant	87
	León, Guanajuato	Soft Drink Bottling Plant	38
	Morelia, Michoacan	Soft Drink Bottling Plant	50
	Ixtacomitán, Tabasco	Soft Drink Bottling Plant	90
	Apizaco, Tlaxcala	Soft Drink Bottling Plant	80
	Coatepec, Veracruz	Soft Drink Bottling Plant	142
Guatemala	Guatemala City	Soft Drink Bottling Plant	46
Nicaragua	Managua	Soft Drink Bottling Plant	60
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	Soft Drink Bottling Plant	84
	Bucaramanga	Soft Drink Bottling Plant	26
	Cali	Soft Drink Bottling Plant	87
	Manantial	Soft Drink Bottling Plant	67
	Medellín	Soft Drink Bottling Plant	45
Venezuela	Antimano	Soft Drink Bottling Plant	14
	Barcelona	Soft Drink Bottling Plant	141
	Maracaibo	Soft Drink Bottling Plant	68
	Valencia	Soft Drink Bottling Plant	100
Brazil	Campo Grande	Soft Drink Bottling Plant	36
	Jundiaí	Soft Drink Bottling Plant	191
	Moji das Cruzes	Soft Drink Bottling Plant	95
Argentina	Alcorta	Soft Drink Bottling Plant	73

Table of Contents

Sub-holding Company	Location	Principal Use	Production Area (in thousands of sq. meters)
FEMSA Cerveza			
	Tecate, Baja California Norte	Brewery	586
	Toluca, Estado de México	Brewery	375
	Guadalajara, Jalisco	Brewery	117
	Monterrey, Nuevo León	Brewery	445
	Navojoa, Sonora	Brewery	548
	Orizaba, Veracruz	Brewery	281
	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	9
	Nogales, Veracruz	Bottle Decoration	26
	Orizaba, Veracruz	Glass Bottles	23
Brazil			
	Jacareí	Brewery	72
	Ponta Grossa	Brewery	44
	Araraquara	Brewery	38
	Feira de Santana	Brewery	26
	Pacatuba	Brewery	34
	Gravataí	Brewery	23
	Cuiabá	Brewery	20
	Manaus	Brewery	11

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, 2007, 2006, and 2005 were Ps. 11,257 million, Ps. 9,422 million and Ps. 7,508 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,		
	2007	2006	2005
	(in millions of constant Mexican pesos)		
Coca-Cola FEMSA	3,682	Ps. 2,863	Ps. 2,516
FEMSA Cerveza	5,373	4,419	3,197
FEMSA Comercio	2,112	1,943	1,528
Other	90	197	267
Total	11,257	Ps. 9,422	Ps. 7,508

Table of Contents

Coca-Cola FEMSA

During 2007, Coca-Cola FEMSA s capital expenditures focused on investments in returnable bottles and cases, increasing plant operating capacity, placing refrigeration equipment with retailers and improving the efficiency of distribution infrastructure. Capital expenditures in Mexico were approximately Ps.1,945 million and accounted for approximately 50% of Coca-Cola FEMSA s capital expenditures.

FEMSA Cerveza

Production

During 2007, FEMSA Cerveza invested approximately Ps. 643 million on equipment substitution and upgrades in its facilities. FEMSA Cerveza s monthly installed capacity as of December 31, 2007 was 4.55 million hectoliters, equivalent to an annualized installed capacity of 54.6 million hectoliters. In addition, FEMSA Cerveza invested Ps. 645 million in plant improvements and equipment upgrades for its beverage can and glass bottle operations.

Distribution

In 2007, FEMSA Cerveza invested Ps. 778 million in its distribution network. Approximately Ps. 213 million of this amount was invested in the replacement of trucks in its distribution fleet, Ps. 353 million in land, buildings and improvements to leased properties dedicated to various distribution functions, and the remaining Ps. 212 million in other distribution-related investments.

Market-related Investments

During 2007, FEMSA Cerveza invested Ps. 3,198 million in market-related activities and brand support in the domestic market. Approximately 53% of these investments were directed to customer agreements with retailers and commercial support to owned and third party distributors. Investments in retail agreements 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 four to five 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 mean 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 2007, FEMSA Cerveza invested Ps. 109 million in system software projects.

FEMSA Comercio

FEMSA Comercio s principal investment activity is the construction and opening of new stores. During 2007, FEMSA Comercio opened 716 net new OXXO stores. FEMSA Comercio invested Ps. 2,112 million in 2007 in the addition of new stores, warehouses 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.

Table of Contents

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 del Equilibrio Ecológico y la 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 de Medio Ambiente y Recursos Naturales* (the Ministry of the Environment and Natural Resources) or SEMARNAT. SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have implemented several programs designed to facilitate compliance with air, waste, noise and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City. See 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 SEMARNAT. 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, certain 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 SEMARNAT. All of our bottler plants located in Mexico City, as well as the Toluca plant, met these new standards as of 2001.

Coca-Cola FEMSA s Mexican operations, Coca-Cola FEMSA built a PET recycling plant in 2004 in partnership with The Coca-Cola Company and ALPLA, which manufactures plastic bottles for Coca-Cola FEMSA in Mexico. This plant, located in Toluca, Mexico, started operations in 2005 and has a recycling capacity of 25,000 metric tons per year from which 15,000 metric tons can be used in PET bottles for food packaging purposes. Coca-Cola FEMSA has also continued contributing funds to a nationwide recycling company ECOCE or Ecología y Compromiso Empresarial (Environmentally Committed Companies).

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 as well as water usage. In some countries in Central America, Coca-Cola FEMSA is in the process of bringing its operations into compliance with new environmental laws. 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 *Misión Planeta* (Mission 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 treated water toxic and dangerous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water 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.

Table of Contents

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 subsidiary has presented the proper authorities with 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

FEMSA Cerveza s and 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 and disposal of wastewater, 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 (i) ISO 9001 since March 1995; (ii) and the ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; and iv) ISO 22000 since 2007.

In Brazil it is necessary to obtain concessions from the government to cast drainage. All of Coca-Cola FEMSA s plants in Brazil have been granted this concession, except Mogi das Cruzes, but Coca-Cola FEMSA is in the process of obtaining one.

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 Ambiente y Desarrollo Sustentable* (the Ministry of Natural Resources and Sustainable Development) and the *Organismo Provincial para el Desarrollo Sostenible* (the Provincial Organization for Sustainable Development) for the province of Buenos Aires. Coca-Cola FEMSA s Alcorta plant is in compliance with environmental 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 by local authorities of 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. 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 and do not cure such situations in a timely manner. 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.

According to the Brazilian Constitution, water is considered an asset of the government and may only be exploited in the national interest, by Brazilians or companies constituted under Brazilian law. Concessionaires have the responsibility for any damage to the environment. The exploitation and utilization of water is regulated by the Código de Mineração (Decree Law nº. 227/67), by the Código de Águas Minerais (Decree Law nº. 7841/45) and also by regulations issued thereunder. The companies which exploit water are supervised by the Departamento Nacional de Produção Mineral - DNPM in connection with sanitary, federal, state and municipal authorities (Ministério da Saúde and Secretarias da Saúde). We believe we are currently in compliance with these regulations at both Mogi das Cruzes and Jacareí.

We do not currently require a permit to obtain water in our other territories. In Nicaragua, Costa Rica and some plants in Colombia and Venezuela, we own private water wells. However, in Colombia, we require a specific license filed before the environmental authorities. In the remainder of our territories, we obtain water from governmental agencies or municipalities. 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 Financial Reporting Standards, which differ in certain significant respects from U.S. GAAP. Notes 26 and 27 to our audited consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income, changes in stockholders equity and cash flows for the same periods presented for Mexican Financial Reporting Standards 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:

- While Coca-Cola FEMSA s Mexican operations continue growing at a steady but moderate pace, operations in Central and South America are growing at accelerated rates. The *Coca-Cola* brand continues to deliver the majority of volume growth.

- At FEMSA Cerveza, total beer sales volumes have increased in Mexico, Brazil and in the export market. The high price of raw materials, particularly aluminum and barley, represent an uncertainty in our cost structure. Heineken USA has been distributing FEMSA Cerveza s beer brands in the United States since January 1, 2005 with very encouraging results, and we have signed a new agreement that extends this commercial relationship until December 2017.

Table of Contents

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 2008.

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.

Table of Contents

Recent Developments

FEMSA Share and Unit Structure Extended

On April 22, 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008. Our bylaws previously provided that on May 11, 2008 our Series D-B Shares would convert into Series B Shares, and our Series D-L Shares would convert into Series L Shares with limited voting rights. In addition, our bylaws provided that our current unit structure would cease to exist and each of our B Units would be unbundled into five Series B Shares, while each BD Unit would unbundle into three Series B Shares and two newly issued Series L Shares. Following the April 22, 2008 shareholder approvals, the automatic conversion of our share and unit structures will no longer exist, and, absent shareholder action, our share structure will continue to be comprised of Series B Shares, which must represent up to 51% of our outstanding capital stock, and Series D-B and Series D-L Shares, which together may represent up to 49% of our outstanding capital stock. Our Unit structure, absent shareholder action, will continue to consist of B Units, which bundle five Series B Shares, and BD Units, which bundle one Series B Share, two Series D-B Shares and two Series D-L Shares. See The Offer and Listing Description of Securities.

Brazilian Beverage Industry Tax

On June 24, 2008, the president of Brazil approved Provisional Measure No. 413/08 which changes the tax collection applicable to the Brazilian beverage industry. This Provisional Measure was turned back to the Brazilian tax authority for its review. Neither the implementation scheme nor the period from which the new taxes will apply, has been published. We are still assessing the materiality of these taxes.

Changes in Mexican Financial Reporting Standards Affecting the Statement of Income

Pursuant to Mexican Financial Reporting Standard B-3 (NIF B-3), beginning on January 1, 2007, generic standards were established for the presentation and structuring of the statement of income, whereby minimum content requirements and general disclosure standards were developed. In addition, under Mexican Reporting Standard Interpretation No. 4, or INIF 4, statutory employee profit sharing (PTU) is now required to be presented within other expenses on the income statement. We previously presented employee profit sharing within taxes. For comparability purposes, our historical information has been reclassified and presented according to the new standards.

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, 2007, 2006 and 2005, 72.0%, 73.0% and 76.0%, 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 is expected to increase in future periods.

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 note 4 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. Coca-Cola FEMSA and FEMSA Comercio 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 FEMSA Cerveza and Coca-Cola FEMSA, breakage is expensed as it is incurred. We compare quarterly 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 18 months 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. We determine depreciation of bottles and cases only for tax purposes.

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 the experience of our technical personnel.

We describe the methodology used to restate imported equipment in note 4(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 Financial Reporting Standards. We believe this method more accurately presents the fair value of the assets than restated cost determined by applying inflation factors.

We valued at fair value all fixed assets acquired, considering their operating conditions and the future cash flows expected to be generated based on their estimated remaining useful life as determined by management.

Through 2005, all of our subsidiaries depreciated refrigeration equipment over a five-year estimated useful life. In 2006, we implemented a program to review the estimated useful lives of its refrigeration equipment. As of December 31, 2007, our subsidiaries in Mexico, Argentina, Brazil, Colombia, Costa Rica and Guatemala changed their accounting estimate from five to seven years, considering the maintenance and replacement plans of the equipment. The impact of the change in estimate for the years ended December 31, 2007 and 2006, which was accounted for prospectively, was a reduction in depreciation expense of Ps. 115 million and Ps. 132 million, respectively. The useful life of refrigeration equipment in Venezuela, Panama and Nicaragua remains at five years.

Valuation of intangible assets and goodwill

We identify all intangible assets to reduce as much as possible the goodwill associated with business acquisitions. We separate intangible assets between those with a finite useful life and those with an indefinite useful life, in accordance with the period over which we expect to receive the benefits.

We determine 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. 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.42,225 million as a result of the Panamco acquisition;

- Trademarks and distribution rights for Ps.11,299 million as a result of the acquisition of the 30% interest of FEMSA Cerveza and distribution rights acquired from a third-party distributor;

- Trademarks and goodwill as a result of the acquisition of Kaiser for Ps.4,802 million; and

- Other intangible assets with indefinite lives that amounted to Ps.784 million.

For Mexican Financial Reporting Standards 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 under Mexican Financial Reporting Standards, goodwill was amortized using the straight-line method over a period of no more than 20 years. The amount of goodwill amortization in 2004 was Ps. 16 million. 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 annually review the carrying value of our goodwill and long-lived assets and whenever circumstances indicate that the carrying amount of the reporting unit might exceed its implied fair value. We review for impairment 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.

Following our evaluations during 2007 and up to the date of this annual report, we do not have any information which leads to any 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.

Table of Contents

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, post-retirement medical services and severance indemnities. 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. In 2006, we decided to modify our pension and retirement plans. Through 2006 the pension and retirement plans provided for lifetime monthly payments as a complement to the pension payment received from the Mexican Social Security Institute. (Instituto Mexicano del Seguro Social or IMSS). The modified pension and retirement plans consist in a lump-sum payment to personal vesting on or after January 1, 2007.

Additionally, in 2006, we modified the long-term assumptions used in the actuarial calculations for Mexican subsidiaries based on changes in the company s revised estimate of current prices for settling its related obligations as a result of recent stability in the Mexican economy. These assumptions are described in note 15 to our 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 our assumptions depend on the economic circumstances of each country where we operate.

These changes were accounted for as unrecognized prior service costs and unrecognized actuarial net loss and will be amortized over the expected service period of the Company s personnel. The net effect of the changes mentioned above was an increase in pension and retirement plan, seniority premium and severance indemnity liabilities of Ps.797 million, Ps.l9 million and Ps.23 million, respectively.

In 2007, FEMSA Cerveza approved a plan to allow certain qualifying employees to retire early beginning in 2008. This plan consisted of allowing employees over the age of 55 with 20 years of service to take advantage of early retirement in order to obtain the same pension benefits they would have obtained had they retired at their regular retirement age. In addition, this plan authorized FEMSA Cerveza to make severance payments to certain employees who otherwise would not have met the criteria for eligibility. The plan is intended to improve the efficiency of FEMSA s Cerveza operating structure. The total financial impact of the plan was Ps. 231 million, from which Ps.125 million was recorded in our consolidated income statement for 2007 as part of other expenses. (See note 18 to our audited consolidated financial statements) and Ps. 106 million recorded in 2008 consolidated results.

In accordance with Mexican Financial Reporting Standards, 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 2007 annual labor liability expense, along with the impact on this expense of a 1% change in each assumed rate.

Assumption	2008 Rate[1] (in real terms)	Impact of Rate Change[2] +1% (in millions of Mexican pesos)	-1%
Mexican and Foreign Subsidiaries:			
Discount rate	4.5%	(668)	Ps. 776
Salary increase	1.5%	486	(385)
Return on assets	4.5%	24	(34)

(1) Calculated using a measurement dated as of December 2007.

(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

As we describe in note 23 to our audited consolidated financial statements, the most notable change following the 2007 Mexican Fiscal Reform is the introduction of the *Impuesto Empresarial de Tasa Unica* (IETU) which functions similar to an alternative minimum corporate income tax, except that any amounts paid are not creditable against future income tax payments. Mexican taxpayers will be subject to the higher of the IETU or the income tax liability computed under Mexican Income Tax Law. This new tax is calculated on a cash-flow basis and the rates for 2008 and 2009 will be 16.5% and 17.0%, respectively.

Based on our financial projections for our Mexican tax returns, we expect to pay corporate income tax in the future and do not expect to pay IETU. As such, the enactment of IETU did not impact our consolidated financial position or results of operations, as it only recognizes deferred income tax.

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.

The statutory income tax rate in Mexico for 2007, 2006, 2005 was 28%, 29% and 30%, respectively.

Tax and legal contingencies

We are subject to various claims and contingencies related to tax and legal proceedings as described in note 24 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 4 (r) 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 a component of cumulative other comprehensive income, based on the type of hedging instrument and the ineffectiveness of the hedge. The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. We base our forward price curves upon market price quotations.

New Accounting Pronouncements

Although we are still in the process of assessing the effects of our adoption of the new accounting standards described below, we do not anticipate any significant impact on our consolidated balance sheet, results of operations, or significant changes to our financial position or cash flows.

Under Mexican Financial Reporting Standards (Normas de Información Financiera, or NIF)

NIF B-2, *Estado de Flujo de Efectivo* (Statement of Cash Flows)
This NIF establishes general rules for the presentation, structure and preparation of statements of cash flow, as well as the disclosures supplementing these cash flow statements. NIF B-2 replaces prior Bulletin B-12, *Estado de Cambios en la Situación Financiera* (Statements of Changes in Financial Position), which established guidelines with respect to statements of changes in financial position. N1F B-2 requires that the cash flow statement show the company s cash inflows and outflows during the relevant period. Line-items should also be presented as gross items when appropriate. Cash flows from financing activities are now presented below those from investing activities, which represents a departure from Bulletin B-12. In addition, NIF B-2 allows entities to determine and present their cash flows from operating activities using either the direct or indirect method. NIF B-2 was effective starting January 1, 2008.

NIF B-10, *Efectos de la Inflación* (Effects of Inflation)
This NIF provides a separate set of guidelines to deal with accounting for inflation effects. If inflation for the three preceding years is 26% or more, cumulatively, the effects of inflation must be recognized using the comprehensive method. If cumulative inflation for the three preceding years is less than 26%, no inflationary effects need to be recognized in the company s financial statements. Additionally, NIF B-10 eliminates the replacement cost and specific indexation methods for inventories and fixed assets, respectively, and requires that the cumulative gain or loss from holding non-monetary assets be reclassified to retained earnings, if such gain or loss is realized. The gain or loss that is not realized will be maintained in stockholders equity and charged to current earnings for the period in which the originating item is realized. NIF B-10 was effective starting January 1, 2008. As of December 31, 2007, the cumulative inflation rate for the three preceding years in Mexico, Colombia, Brazil, Panama and Guatemala was less than 26% and, accordingly we will not recognize inflation effects in 2008 for our subsidiaries located in these countries. For Costa Rica, Nicaragua, Argentina and Venezuela, we will continue to recognize inflation effects for our subsidiaries located in these countries.

NIF B-15, *Conversión de Moneda Extranjera* (Translation of Foreign Currencies)
NIF B-15 eliminates classification of integrated foreign operations and foreign entities and incorporates the concepts of accounting currency, functional currency and reporting currency. N1F B-15 establishes the procedures to translate the financial information of a foreign subsidiary: i) from the accounting to the functional currency, and ii) from the functional to the reporting currency, and allows entities to present their financial statements in a reporting currency other than their functional currency. NIF B-15 was effective starting January 1, 2008.

NIF D-3, *Beneficios a lo Empleados* (Employee Benefits)
This NIF applies to current and deferred Employee Profit Sharing (PTU). Deferred PTU should be calculated using the same methodology established in NIF D-4, *Impuestos a la Utilidad* (Income Taxes). It also includes a career salary concept and the amortization period for most items has been reduced to five years. NIF D-3 was effective starting January 1, 2008.

NIF D-4, *Impuestos Sobre Utilidades* (Income Taxes)
This NIF relocates accounting for current and deferred PTU to NIF D-3, eliminates the permanent difference concept and redefines and incorporates various definitions. NIF D-4 was effective starting January 1, 2008.

Under US. GAAP

FASB Staff Position (FSP) FASB Interpretation No. 39 Offsetting of Amounts Related to Certain Contracts, or FSP FIN No. 39

This FSP amends paragraph 3 of FASB Interpretation No. 39 to replace the terms conditional contracts and exchange contracts with the term derivative instruments as defined in SFAS No. 133. In addition, this FSP amends paragraph 10 of FASB Interpretation No. 39 to permit a reporting entity to offset fair value amounts recognized for the right to reclaim

67

cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement that have been offset in accordance with that paragraph. This FSP is effective for fiscal years beginning after November 15, 2007.

The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159

This standard permits entities to choose to measure financial instruments and certain other items at fair value to mitigate volatility in reported earnings. According to SFAS No. 159, the following are eligible items for the use of the fair value measurement: (1) recognized financial assets and financial liabilities; (2) firm commitments that would otherwise not be recognized at inception and that involve only financial instruments; (3) non-financial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services; and (4) host financial instruments resulting from separation of an embedded non-financial derivative instrument from a nonfinancial hybrid instrument. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We are in the process of determining the impact of adopting this new accounting principle on our consolidated financial position and results of operations.

Business Combinations, an amendment of SFAS No. 141, or SFAS No. 141(R)

This statement requires (a) a company to recognize acquired assets, assumed liabilities, and any non- controlling interest in the acquiree at fair value as of the acquisition date; and (b) an acquirer in preacquisition periods to expense all acquisition-related costs. SFAS No. 141(R) requires that any adjustments to an acquired entity s deferred tax asset and liability balance that occur after the measurement period be recorded as a component of income tax expense. This accounting treatment is required for business combinations consummated before the effective date of SFAS No. 141(R) (non-prospective), otherwise SFAS No. 141(R) must be applied prospectively, meaning early adoption is prohibited. SFAS No. 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008.

Fair Value Measurements, or SFAS No. 157

This statement establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to current practices resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. On February 12, 2008, the FASB issued FSP FAS 157-1 and FSP FAS 157-2, which remove leasing transactions accounted for under SFAS No. 13 Accounting for Leases from the scope of SFAS No. 157 and partially defer the effective date of SFAS No. 157 with respect to non-recurring fair value measurement of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. We are in the process of determining the impact of adopting this new accounting principle on our consolidated financial position and results of operations.

Non-controlling Interest in Consolidated Financial Statements, or SFAS No. 160

This statement has the following effects on an entity s financial statements: (a) amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and the deconsolidation of a subsidiary; (b) changes the way the consolidated income statement is presented; (c) establishes a single method of accounting for changes in a parent s ownership interest in a subsidiary that does not result in deconsolidation; (d) requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated; and (e) requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent company and the

Table of Contents

interests of the non-controlling owners of a subsidiary. SFAS No. 160 must be applied prospectively and early adoption is prohibited. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are in the process of determining the impact of adopting this new accounting principle on our consolidated financial position and results of operations.

Operating Results

The following table sets forth our consolidated income statement under Mexican Financial Reporting Standards for the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31, 2007			
	2007	2007	2006	2005
	(in millions of U.S. dollars and constant Mexican pesos at December 31, 2007)			
Net sales	$ 13,472	Ps. 147,069	Ps. 135,647	Ps. 118,799
Other operating revenues	44	487	473	663
Total revenues	13,516	147,556	136,120	119,462
Cost of sales	7,310	79,801	73,366	63,721
Gross profit	6,206	67,755	62,754	55,741
Operating expenses:				
Administrative	842	9,191	8,973	7,957
Selling	3,571	38,995	35,314	30,345
Total operating expenses	4,413	48,186	44,287	38,302
Income from operations	1,793	19,569	18,467	17,439
Other expenses, net	(119)	(1,297)	(1,650)	(1,108)
Interest expense	(417)	(4,554)	(4,299)	(4,759)
Interest income	70	769	792	765
Interest expense, net	(347)	(3,785)	(3,507)	(3,994)
Foreign exchange gain (loss), net	63	691	(217)	318
Gain on monetary position, net	151	1,639	1,488	1,204
Market value gain (loss) on ineffective portion of derivative financial instrument	6	69	(113)	(166)
Integral result of financing	(127)	(1,386)	(2,349)	(2,638)
Income before income taxes	1,547	16,886	14,468	13,693
Income taxes	454	4,950	4,608	4,620
Consolidated net income	$ 1,093	Ps. 11,936	Ps. 9,860	Ps. 9,073
Net majority income	780	8,511	7,127	5,951
Net minority income	313	3,425	2,733	3,122
Consolidated net income	$ 1,093	Ps. 11,936	Ps. 9,860	Ps. 9,073

The following table sets forth certain operating results by reportable segment under Mexican Financial Reporting Standards for each of our segments for the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31				
				Percentage Growth	
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005
	(in millions of constant Mexican pesos at December 31, 2007, except for percentages)				
Net sales					
Coca-Cola FEMSA	68,969	Ps. 63,820	Ps. 59,181	8.1%	7.8%
FEMSA Cerveza	39,284	37,680	29,593	4.2%	27.3%
FEMSA Comercio	42,103	36,835	31,021	14.3%	18.7%
Total revenues					
Coca-Cola FEMSA	69,251	64,046	59,642	8.1%	7.4%
FEMSA Cerveza	39,566	37,919	29,768	4.3%	27.4%
FEMSA Comercio	42,103	36,835	31,021	14.3%	18.7%
Cost of sales					
Coca-Cola FEMSA	35,881	33,745	30,558	6.3%	10.4%
FEMSA Cerveza	17,889	16,487	11,998	8.5%	37.4%
FEMSA Comercio	30,301	26,839	22,792	12.9%	17.8%
Gross profit					
Coca-Cola FEMSA	33,370	30,301	29,084	10.1%	4.2%
FEMSA Cerveza	21,677	21,432	17,770	1.1%	20.6%
FEMSA Comercio	11,802	9,996	8,229	18.1%	21.5%
Income from operations					
Coca-Cola FEMSA	11,447	10,251	9,973	11.7%	2.8%
FEMSA Cerveza	5,404	6,121	5,800	(11.7)%	5.5%
FEMSA Comercio	2,315	1,664	1,360	39.1%	22.4%
Depreciation					
Coca-Cola FEMSA(1)	2,637	2,595	2,610	1.6%	(0.6)%
FEMSA Cerveza	1,637	1,818	1,617	(10.0)%	12.4%
FEMSA Comercio	543	431	348	26.0%	23.8%
Gross margin(2)					
Coca-Cola FEMSA	48.2%	47.3%	48.8%	0.9%	(1.5)%
FEMSA Cerveza	54.8%	56.5%	59.7%	(1.7)%	(3.2)%
FEMSA Comercio	28.0%	27.1%	26.5%	0.9%	0.6%
Operating margin(3)					
Coca-Cola FEMSA	16.5%	16.0%	16.7%	0.5%	(0.7)%
FEMSA Cerveza	13.7%	16.1%	19.5%	(2.4)%	(3.4)%
FEMSA Comercio	5.5%	4.5%	4.4%	1.0%	0.1%

(1) Includes breakage of bottles.

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

(3) Operating margin is calculated with reference to total revenues.

Table of Contents

Results of Operations for Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

FEMSA Consolidated

Total Revenues

FEMSA s consolidated total revenues increased 8.4% to Ps. 147,556 million in 2007 compared to Ps. 136,120 million in 2006. All of FEMSA s operations soft drinks, beer and retail contributed positively to this revenue growth. FEMSA Comercio s revenues increased 14.3% to Ps. 42,103 million, due to the 716 net new stores opened during the year and the 3.3% growth in same stores sales. Coca-Cola FEMSA s total revenues increased 8.1% to Ps. 69,251 million, mainly due to strong volume growth of 6.1% as compared to 2006 from 2,120.8 million unit cases in 2007 to 1,998.1 million unit cases in 2006 and an average price per unit case increase of 1.9%. Total revenues at FEMSA Cerveza increased 4.3% over 2006 to Ps. 39,566 million, driven by higher volumes that more than offset the slight decline in average price per hectoliter in real terms and the decline in lower third-party packaging revenues as our internal demand for packaging increased as opposed to third-party sales.

Gross Profit

Consolidated cost of sales increased 8.8% to Ps. 79,801 million in 2007 compared to Ps. 73,366 million in 2006. Approximately 53.8% of this increase resulted from FEMSA Comercio and its rapid pace of store expansion. Coca-Cola FEMSA accounted for 33.2% of this increase and FEMSA Cerveza accounted for 21.8%.

Consolidated gross profit increased 8.0% to Ps. 67,755 million in 2007 compared to Ps. 62,754 million in 2006 due to increases in all of our operations. Gross margin decreased 0.2 percentage points as compared to 2006, from 46.1% of consolidated total revenues in 2006 to 45.9% in 2007. Gross margin improvements at Coca-Cola FEMSA and FEMSA Comercio partially offset raw material pressure at FEMSA Cerveza, resulting in a slight gross margin decrease.

Income from Operations

Consolidated operating expenses increased 8.8% to Ps. 48,186 million in 2007 compared to Ps. 44,287 million in 2006. Approximately 48% of this increase was driven by additional operating expenses in all of Coca-Cola FEMSA s operations, especially in Venezuela, Brazil and Mexico, which together accounted for 75.6% of the incremental expense. As a percentage of total revenues, consolidated operating expenses remained stable at 32.6% in 2007 compared with 32.5% in 2006.

Consolidated administrative expenses increased 2.4% to Ps. 9,191 million in 2007 compared to Ps. 8,973 million in 2006. However, as a percentage of total revenues, consolidated administrative expenses decreased 0.4 percentage points to 6.2% in 2007 compared with 6.6% in 2006 due to operating leverage driven by higher revenues achieved in all of FEMSA s operations.

Consolidated selling expenses increased 10.4% to Ps. 38,995 million in 2007 as compared to Ps. 35,314 million in 2006. Approximately 45.2% of this increase was due to Coca-Cola FEMSA and 31.5% to FEMSA Comercio s rapid rate of growth. As a percentage of total revenues, selling expenses increased 0.5 percentage points to 26.4% in 2007 compared to 25.9% in 2006.

We incur various expenses related to the distribution of our products that are accounted for in our selling expenses. During 2007 and 2006, our distribution costs amounted to Ps. 10,601 million and Ps. 9,921 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 6.0% to Ps. 19,569 million in 2007 as compared to Ps. 18,467 million in 2006, driven by the results of Coca-Cola FEMSA and FEMSA Comercio, which more than offset the decrease at FEMSA Cerveza.

Table of Contents

Consolidated operating margin decreased 0.3 percentage points from 2006 levels to 13.3% of consolidated total revenues in 2007. The decrease in operating margin was primarily attributable to a margin contraction at FEMSA Cerveza driven by higher raw material prices and operating expenses and the increased contribution of FEMSA Comercio, which has a lower margin than our core operations.

Some of our subsidiaries pay management fees to us 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 total revenues increased 8.1% to Ps. 69,251 million in 2007, compared to Ps. 64,046 million in 2006 with Mexico, Brazil and Venezuela accounting for more than 75% of this growth.

Consolidated total sales volume reached 2,120.8 million unit cases in 2007, compared to 1,998.1 million unit cases in 2006, an increase of 6.1%. Sparkling beverage volume, which we previously referred to as sparkling beverages, increased 5.7% as a result of sales volume increases in all of our territories. Sparkling beverage volume growth was mainly driven by the Coca-Cola brand, which accounted for close to 65% of incremental total volume. A strong marketing campaign associated with the launching of Coca-Cola Zero in Mexico, Brazil and Argentina contributed to this growth.

Consolidated average price per unit case increased 1.9% in real terms, reaching Ps. 32.15 in 2007 as compared to Ps. 31.56 in 2006. Average price increases in most of our territories, partially offset lower average prices in Mexico.

Gross Profit

Cost of sales in absolute terms increased 6.3% to Ps. 35,881 million in 2007 compared to Ps. 33,745 million in 2006. Gross profit increased 10.1% to Ps. 33,370 million in 2007, as compared to the previous year, mainly driven by incremental revenues across all of our territories and higher fixed-cost absorption. Gross margin increased to 48.2% in 2007 from 47.3% in 2006, driven by revenue growth, which more than compensated for higher sweetener costs in Mexico.

Cost of sales includes raw materials, in particular concentrate and sweeteners, packaging materials, depreciation expenses attributable to our production facilities, wages and other employment expenses associated with the labor force employed at our production facilities, as well as certain overhead expenses. Concentrate prices are determined as a percentage of the retail price of our products in local currency net of applicable taxes.

Income from operations

Operating expenses in absolute terms increased 9.3% year over year to Ps. 21,923 million, mainly as a result of (1) salary increases ahead of inflation in some of the countries in which we operate, (2) higher operating expenses due to increases in maintenance expenses and freight costs in some territories and (3) higher marketing investment in our major operations in connection with several initiatives intended to reinforce our presence in the market and build brand equity. As a percentage of total revenues, operating expenses increased from 31.3% in 2006 to 31.7% in 2007.

Income from operations increased 11.7% to Ps. 11,447 million in 2007, as compared to Ps. 10,251 million in 2006. Brazil, Colombia and Venezuela accounted for the majority of the incremental growth and more than offset a slight operating income decline in Mexico. Operating margin increased 0.5 percentage points to reach 16.5% of total revenues in 2007, mainly driven by the improved operating leverage that resulted from higher revenues.

Table of Contents

FEMSA Cerveza

Total Revenues

FEMSA Cerveza total revenues increased 4.3% to Ps. 39,566 million in 2007 as compared to Ps. 37,919 million in 2006. Beer sales increased 5.4% to Ps. 36,457 million in 2007 compared to Ps. 34,602 million in 2006 and represent 92.1% of total revenues in 2007. Total revenue growth was primarily driven by higher volumes which more than offset the decline in lower third-party packaging revenues driven by a higher percentage of our packaging production going to internal demand as opposed to third-party sales; and the 0.6% decline in average price per hectoliter in real terms, resulting from lower average price per hectoliter in all our operations. Mexico beer revenues represented 68.8% of total revenues in 2007 compared to 69.2% in 2006. Brazil beer revenues represented 14.9% of total revenues in 2007, up from 14.2% in 2006. Export beer revenues reached 8.4% of total revenues in 2007, up from 7.9% in 2006.

Mexico sales volume increased 3.9% to 26.962 million hectoliters in 2007, despite strong comparable growth figures in 2006 and adverse weather conditions mainly in the first and third quarters of 2007. Growth was driven by our Tecate, Sol and Indio brand families throughout the country. Mexico price per hectoliter remained almost flat in real terms at Ps. 1,009.4 in 2007.

Brazil sales volume increased 9.6% to 9.795 million hectoliters in 2007 compared to 8.935 million hectoliters in 2006, outpacing the growth of the Brazilian beer industry. This growth reflects positive trends for our brand portfolio that continue to develop according to FEMSA Cerveza s plan for these operations. Brazil price per hectoliter decreased 0.2% over 2006 in real terms to Ps. 602.7 in 2007.

Export sales volumes increased 13.2% compared to 2006 reaching 3.183 million hectoliters compared to 2.811 million hectoliters in 2006, primarily driven by increased demand for our Dos Equis and Tecate brands in the U.S. and for our Sol brand in other key markets. Export price per hectoliter decreased 1.0% compared to 2006 to Ps. 1,048.9 in 2007.

Gross Profit

Cost of sales increased 8.5% to Ps. 17,889 million in 2007 compared to Ps. 16,487 million in 2006, mainly driven by 5.9% total volume growth, higher raw material prices, particularly aluminum and grains, and incremental volumes coming from non-returnable presentations. Gross profit reached Ps. 21,677 million in 2007 an increase of 1.1% as compared to Ps. 21,432 million in 2006. Gross margin decreased 1.7 percentage points from 56.5% in 2006 to 54.8% in 2007.

Income from operations

Operating expenses increased 6.3% to Ps. 16,273 million in 2007 compared to Ps. 15,312 million in 2006. Administrative expenses slightly increased 0.8% to Ps. 4,316 million in 2007 compared to Ps. 4,283 million in 2006. Selling expenses increased 8.4% to Ps. 11,957 million in 2007 as compared to Ps. 11,029 million in 2006, mainly due to continued investment in channel development and brand-building activities for Sol and Tecate in Mexico as well as for Dos Equis and Tecate in the U.S. and stepped-up marketing activities in Brazil in connection with our Sol and Kaiser brands. Income from operations decreased 11.7% to Ps. 5,404 million in 2007, to 13.7% of consolidated total revenues.

FEMSA Comercio

Total Revenues

FEMSA Comercio total revenues increased 14.3% to Ps. 42,103 million in 2007 compared to Ps. 36,835 million in 2006, primarily as a result of the opening of 716 net new OXXO stores during 2007 and same-store sales growth. As of December 31, 2007, there were a total of 5,563 OXXO stores in Mexico. This is OXXO s 12th consecutive year of increasing the number of new store openings. OXXO same-store sales increased on average 3.3% compared to 2006, due to a 4.4% increase in store traffic, which was driven by broader mix of products and services, which more than offset a decrease of 1.1% in average customer ticket. Traffic and ticket dynamics reflect the introduction of electronic air-time sales for customers of wireless telephone carriers, launched in recent months across the country, which drive incremental traffic to the store and for which only the margin is recorded, not the total revenues coming from the air-time recharge.

Gross Profit

Cost of sales increased 12.9% to Ps. 30,301 million in 2007, below total revenue growth, compared with Ps. 26,839 million in 2006. As a result, gross profit reached Ps. 11,802 million in 2007, which represented an 18.1% increase from 2006. Gross margin expanded 0.9 percentage points to reach 28.0% of total revenues. This improvement was driven by better pricing strategies, improved commercial terms with our supplier partners, as well as by growth coming from higher-margin categories such as fast food, coffee and alternative beverages.

Income from operations

Operating expenses increased 13.9% to Ps. 9,487 million in 2007 compared with Ps. 8,332 million in 2006. Administrative expenses decreased 0.4% to Ps. 751 million in 2007 compared with Ps. 754 million in 2006 primarily as our initial capitalized investments in the Oracle ERP system have been fully amortized, and due to a lesser extent to broad expense-containment initiatives. Selling expenses as a percentage of total revenues remained stable at 20.7% in 2007, an increase of 15.3% in 2007 compared with Ps. 7,578 million in 2006. Income from operations increased 39.1% to Ps. 2,315 million in 2007 compared with Ps. 1,664 million in 2006, resulting in an operating margin expansion of 1.0 percentage point to 5.5% as a percentage of total revenues for the year, compared with 4.5% in 2006. This margin expansion was driven by gross margin expansion and by better fixed-expense absorption resulting from higher revenues.

FEMSA Consolidated Net Income

Integral Result of Financing

Net interest expense reached Ps. 3,785 million in 2007 compared with Ps. 3,507 million in 2006 mainly driven by higher interest expense derived from an increase in average total debt during the year. Foreign exchange (loss/gain) amounted to a gain of Ps. 691 million in 2007 compared with a loss of Ps. 217 million in 2006. This gain resulted due to appreciation of the Mexican peso and the Brazilian reais as applied to our U.S. dollar-denominated debt position in 2007.

Monetary position amounted to a gain of Ps. 1,639 million in 2007 compared with a gain of Ps. 1,488 million in 2006. This gain in 2007 represents the positive effects of inflation on monetary items on our increased liabilities recorded in 2007.

Other Expenses

Beginning in 2007, pursuant to Mexican Financial Reporting Standards, we recorded employee profit sharing as part of other expenses instead of presenting it within the taxes line. For comparison purposes, we also reflect this change in the information presented for prior periods. Our employee profit sharing expenses amounted to Ps. 553 million in 2007 compared to Ps. 530 million in 2006. Excluding employee profit sharing, other expenses, net decreased 33.6% to Ps. 744 million in 2007 from Ps. 1,120 million in 2006, driven by extraordinary items recorded for strategic projects, mainly at Coca-Cola FEMSA, in 2006.

Taxes

The provision for income taxes in 2007 was Ps. 4,950 million compared to Ps. 4,608 million in 2006, resulting in an effective tax rate of 29.3% compared to 31.8% in 2006, mainly driven by a reduction in the statutory income tax rate in Mexico from 29% in 2006 to 28% in 2007 and less non-deductible expenses.

Table of Contents

Net Income

Net income increased 21.1% to Ps. 11,936 million in 2007 compared to Ps. 9,860 million in 2006, driven by income from operations growth and a shift from a loss in foreign exchange in 2006 to a gain in 2007.

Net majority income amounted to Ps. 8,511 million in 2007 compared to Ps. 7,127 million in 2006, an increase of 19.4%. Net majority income in 2007 per FEMSA Unit was Ps. 2.38 ($2.18 per ADS).

Results of Operations for Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

FEMSA Consolidated

In 2006, FEMSA Cerveza acquired 99.83% of the Brazilian brewer, Cervejarias Kaiser, or Kaiser, through a series of transactions with Molson Coors and Heineken N.V. The following discussion of our consolidated results for 2006 fully reflects the inclusion of the results for Brazilian beer operations in 2006. However, because we did not own Brazilian beer operations prior to this period, our consolidated results and FEMSA Cerveza s results for 2006 are not fully comparable to the prior period.

Total Revenues

Consolidated total revenues increased 13.9% to Ps. 136,120 million in 2006 compared to Ps. 119,462 million in 2005. All of FEMSA s operations soft drinks, beer, and retail contributed to this revenue growth. FEMSA Cerveza was the largest contributor to consolidated total revenue growth in 2006, representing approximately 51.1% of the increase, due to the inclusion of its newly acquired Brazilian beer operations and a 9.3% increase in Mexico beer sales, which reached Ps. 26,227 million in 2006. The remaining growth came primarily from FEMSA Comercio and Coca-Cola FEMSA. FEMSA Comercio s total revenues increased 18.7% to Ps. 36,835 million, due in large part to the 706 net new stores opened during the year. Coca-Cola FEMSA s total revenues increased 7.4% to Ps. 64,046 million, mainly due to increased prices and strong volume growth throughout most of its nine countries of operation. This increase was partially offset by Mexico s continued pricing pressure, which was partly compensated for by price improvements in the other areas.

Gross Profit

Consolidated cost of sales increased 15.1 % to Ps. 73,366 million in 2006 compared to Ps. 63,721 million in 2005. Approximately 79% of this increase resulted from FEMSA Comercio and its OXXO store expansion, and to FEMSA Cerveza, which increased its costs of sales due to the acquisition of Brazilian beer operations.

Consolidated gross profit increased 12.6% to Ps. 62,754 million in 2006 compared to Ps. 55,741 million in 2005. Approximately 52% of this increase resulted from FEMSA Cerveza, due to the inclusion of its newly acquired Brazilian operations. Gross margin decreased 0.6 percentage points to 46.1% of consolidated total revenues in 2006, compared to 46.7% of consolidated total revenues in 2005. The slight decline in consolidated gross margin from 2005 levels resulted from the inclusion of FEMSA Cerveza s lower margin beer operations in Brazil, and the increased contribution of FEMSA Comercio in our consolidated financial results, which has lower gross margin relative to our other operations, typical of convenience and retail store formats.

Income from Operations

Consolidated operating expenses increased 15.6% to Ps. 44,287 million in 2006 compared to Ps. 38,302 million in 2005. Approximately 56% of this increase was due to FEMSA Cerveza, which increased expenses year-over-year due to the inclusion of its newly acquired Brazilian operations and increased selling expenses in the Mexican market, primarily for advertising and market-related initiatives. As a percentage of total revenues, consolidated operating expenses increase 0.5 percentage points to reach 32.5% in 2006 compared with 32.0% in 2005.

Consolidated administrative expenses increased 12.8% to Ps. 8,973 million in 2006 compared to Ps. 7,957 million in 2005. As a percentage of total revenues, consolidated administrative expenses decreased 0.1 percentage points to reach 6.6% in 2006 compared with 6.7% in 2005. The lower level of administrative expenses relative to total revenue growth resulted from a 0.1% reduction in administrative expenses at Coca-Cola FEMSA and stable administrative expenses as percentage of total revenues at FEMSA Cerveza (excluding Brazil) and FEMSA Comercio.

Consolidated selling expenses increased 16.4% to Ps. 35,314 million in 2006 as compared to Ps. 30,345 million in 2005. Approximately 56% of this increase was due to FEMSA Cerveza and the inclusion of its newly acquired Brazilian operations, and 27% to FEMSA Comercio s rapid rate of growth. As a percentage of total beer revenues, selling expenses increased 0.6 percentage points to reach 25.9% in 2006 compared to 25.3% in 2005.

We incur various expenses related to the distribution of our products that are accounted for in our selling expenses. During 2006 and 2005, our distribution costs amounted to Ps. 9,921 million and Ps. 9,273 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 5.9% to Ps. 18,467 million in 2006 as compared to Ps. 17,439 million in 2005. Over one-third of this increase resulted from FEMSA Cerveza and its top-line growth combined with gross margin improvements that offset increased operating expenses and the negative impact from the inclusion of the newly acquired Brazilian operations. The remaining amount is attributable to FEMSA Comercio and Coca-Cola FEMSA, representing approximately 30% and 27% respectively. Consolidated operating margin decreased 1.0 percentage point from 2005 levels to 13.6% of consolidated total revenues in 2006. The decrease in operating margin was primarily attributable to the inclusion of FEMSA Cerveza s Brazilian beer operations, which generated a loss of Ps. 94 million due partly to increased marketing expenses for the brand Kaiser and in part to the launch of the brand Sol, to a margin contraction at our key beverage operations, and to the increased contribution of the OXXO retail chain, which has the lowest operating margin relative to our other core beverage operations.

Some of our subsidiaries pay management fees to us 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 7.4% to Ps. 64,046 million in 2006 compared to Ps. 59,642 million in 2005. Net sales increased 7.8% to Ps. 63,820 million in 2006 compared to Ps. 59,181 million in 2005 and represented 99.6% of total revenues in 2006. Total revenue growth primarily resulted from Brazil, Mexico and Venezuela, accounting for approximately 36%, 18% and 17%of the incremental total revenues, respectively.

Sales volume reached 1,998 million unit cases in 2006 compared to 1,889 million unit cases in 2005, which represents an increase of 5.8%, mainly driven by a 6.4% volume growth of the Coca-Cola brand, which accounted for almost 70% of incremental volume. Sales volume growth in Mexico and Brazil, accounted for over 57% of our incremental volume. Sparkling beverage sales volume grew 5.8% to 1,694.7 million unit cases, driven by incremental volume across all of our territories.

Average price per unit case (calculated by dividing net sales by total sales volume excluding beer in Brazil) remained flat in real terms at Ps. 31.56 (US$ 2.61) during 2006, due to price increases in all our territories except for Mexico and Argentina.

Table of Contents

Gross Profit

Cost of sales increased 10.4% to Ps. 33,745 million in 2006 compared to Ps. 30,558 million in 2005. As a percentage of sales, cost of sales increased 1.5 percentage points to reach 52.7% of total revenues in 2006, mainly due to higher sweetener costs in all of our operations, combined with higher plastic bottle prices in some of our territories and higher packaging costs due to a packaging mix shift towards non-returnable presentations.

Gross profit increased 4.2% to Ps.30,301 million in 2006 compared to Ps. 29,084 million in 2005, Brazil and Mexico accounted for over 45% of this growth. Gross margin decreased 1.5 percentage points due to higher cost per unit case in all of our territories, except Mexico and Argentina.

Income from Operations

Operating expenses increased 4.9% to Ps. 20,050 million in 2006 compared to Ps. 19,111 million in 2005 mainly as a result of salary increases ahead of inflation in some of the countries in which we operate, higher operating expenses due to increases in maintenance expenses and freight costs in some territories, and higher marketing investment in our major operations in connection with several initiatives intended to reinforce our presence in the market and to build brand equity. As a percentage of total revenues, operating expenses declined from 32.0% in 2005 to 31.3% in 2006 due to higher fixed-cost absorption, driven by incremental volumes and higher average price per unit case. Administrative expenses increased 5.7% to Ps. 3,540 million in 2006 from Ps. 3,348 million in 2005. Selling expenses increased 4.7% to Ps. 16,510 million in 2006 compared to Ps. 15,763 million in 2005. At 25.8% of total revenues, selling expenses decreased 0.7 percentage points from 2005 levels.

After conducting a thorough analysis, performed by a third party, of the current conditions and expected useful life of our cooler inventories in our territories in Mexico, we decided to modify the useful life of Coca-Cola FEMSA s coolers in Mexico from five to seven years. We made this decision based on Coca-Cola FEMSA s equipment maintenance policy and our ability to better manage our cooler platform in the marketplace. This change in estimate, which was accounted for prospectively reduced our amortization expenses by Ps. 132 million in 2006, and increased our operating income by a similar amount.

Income from operations increased 2.8% to Ps. 10,251 million in 2006 compared to Ps. 9,973 million in 2005 as a result of higher fixed-cost absorption due to higher revenues. Growth in operating income in Colombia, Central America and Brazil more than compensated for flat operating income in Mexico and a decline in Venezuela and Argentina. Operating margin decreased by 0.7 percentage points to 16.0% in 2006 compared to 16.7% in 2005, mainly due to higher cost per unit case.

FEMSA Cerveza

Total Revenues

FEMSA Cerveza total revenues increased 27.3% to Ps. 37,919 million in 2006 as compared to Ps. 29,768 million in 2005. Net sales, which include beer and packaging sales, represented 99.4% of total revenues. This growth was primarily due to the inclusion of FEMSA Cerveza s Brazilian operations, which represented approximately 66% of the increase in total revenues. The remaining growth came from a 9.6% increase in export beer sales, a 9.3% increase in Mexican beer sales and a 6.5% increase in packaging sales.

Mexico

Mexico sales volume increased 5.6% to 25.951 million hectoliters in 2006 compared to 24.580 million hectoliters in 2005. The increased product innovation, broader availability of our beers, successful execution at the point of sale, revenue management initiatives and continued strength in consumer demand, produced this top-line growth. Most notable was the growth of our *Tecate Light* and *Sol* brands, which through focused initiatives have shown improved brand equity and health indicators.

Mexico price per hectoliter increased 3.5% to Ps. 1,010.6 in 2006 compared to Ps. 976.2 in 2005. This strength was driven by (1) the higher price realized from volume brought under direct distribution earlier in the year, (2) a positive mix effect and (3) revenue management and other initiatives aimed at optimizing price points per stock keeping unit and channel while selectively adjusting the margin offered to the retailer.

Brazil

Brazil sales volume was 8.935 million hectoliters in 2006. Brazil price per hectoliter was Ps. 604.1 in 2006.

Export

Export sales volume increased 15.3% to 2.811 million hectoliters in 2006 compared to 2.438 million hectoliters in 2005. This result was slightly above our expectations, in part due to the contribution of Heineken USA, which enabled us to outpace import category growth in the United States for a second year in a row.

Export price per hectoliter decreased 5.0% to Ps. 1,059.0 in 2006 compared to Ps. 1,114.5 in 2005. The decrease in export price reflects a negative foreign exchange rate effect due to the year-on-year real strengthening of the peso, and to a lesser extent due to presentation and channel mix effects as your 24-ounce presentation of *Tecate* continued to grow in the off-premise trade.

Gross Profit

Cost of sales increased 37.4% to Ps. 16,487 million in 2006 compared to Ps. 11,998 million in 2005. As a percentage of total revenues, cost of sales increased 3.2 percentage points from 2005. The increase relative to total revenue growth resulted from the inclusion of Brazilian beer operations, which has a lower gross margin compared to Mexico and exports. Excluding Brazilian beer operations, as a percentage of revenues, cost of sales would have decreased 0.5 percentage points from 2005.

Gross profit reached Ps.21,432 million in 2006 compared to Ps. 17,770 million in 2005, resulting in a gross margin of 56.5% as compared to 59.7%. The 3.2 percentage point decline from 2005 resulted from the inclusion of Brazilian beer operations. Excluding the Brazilian beer operations, the gross margin would have improved 0.5 percentage points from 2005 due to the benefits of volume-driven fixed cost absorption and increased efficiency compensated for upward pricing pressure from raw materials, particularly aluminum.

Income from Operations

Operating expenses increased 27.9% to Ps. 15,312 million in 2006 compared to Ps. 11,970 million in 2005. Administrative expenses increased 15.1% to Ps. 4,283 million in 2006 compared to Ps. 3,720 million in 2005. Selling expenses increased 33.7% to Ps. 11,029 million in 2006 as compared with Ps. 8,250 million in 2005, from which 63% corresponds to the inclusion of Brazilian beer operations and the remaining 37% reflects changes in the distribution network, enhancements to our infrastructure and compliance-related activities. Approximately 63% of the increase in selling expenses resulted from the inclusion of the Brazilian beer operations, with most of remaining increase resulting from increased selling expenses in the domestic market due to the expense structure of third-party volume brought into direct distribution in the year, incremental services provided to retailers whose margins we adjust, increased activation at the point of sale and a strengthened commercial sales structure.

Income from operations increased 5.5% to Ps. 6,120 million in 2006 compared to Ps. 5,800 million in 2005. This reflects an increase in total revenues on strong volume growth and pricing, combined with higher cost of sales and operating expenses. The inclusion of Brazil resulted in a reduction of Ps. 94 million in total income from operations.

Table of Contents

FEMSA Comercio

Total Revenues

FEMSA Comercio total revenues increased 18.7% to Ps. 36,835 million in 2006 compared to Ps. 31,021 million in 2005. The increase in total revenues was mainly a result of the aggressive expansion of the OXXO convenience store chain, which added 706 net new OXXO stores during 2006. As of December 31, 2006, we had 4,847 OXXO stores nationwide. This is OXXO s 11th consecutive year of increasing the number of net new store openings.

Same-store sales of OXXO increased an average of 8.2% in 2006, reflecting an increase in the average customer ticket of 2.8% and an increase in store traffic of 5.4%. 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 17.8% to Ps. 26,839 million in 2006, below total revenue growth, compared with Ps. 22,792 million in 2005. As a result, gross profit reached Ps. 9,996 million in 2006, which represented a 21.5% increase from 2005. Gross margin expanded 0.6 percentage points to reach 27.1% of total revenues, primarily due to the benefit from increased coordinated efforts with our suppliers to provide what we believe to be the right promotions and right products for consumers.

Income from Operations

Operating expenses increased 21.3% to Ps. 8,332 million in 2006 compared with Ps. 6,870 million in 2005. Administrative expenses increased 19.3% to Ps. 754 million in 2006 compared with Ps. 632 million in 2005, due to compliance-related expenses and administrative personnel to support the expanded store base. Selling expenses increased 21.5% to Ps. 7,578 million in 2006 compared with Ps. 6,238 million in 2005, due to an increase in expenses related to the development of direct distribution capabilities, opening of new administrative offices in Colima, Tapachula and Tuxtla, an increase in energy tariffs and consumption as we continue to add to our fast-food capabilities, and increased depreciation expense due to the ongoing renovation of certain OXXO store formats.

Income from operations increased 22.4% to Ps. 1,664 million in 2006 compared with Ps. 1,360 million in 2005. This increase was above revenue growth, and contributed to a 0.1 percentage point increase in operating margin which reached 4.5% in 2006 compared with 4.4% in 2005.

FEMSA Consolidated Net Income

Integral Cost of Financing

Net interest expense reached Ps. 3,507 million in 2006 compared with Ps. 3,994 million in 2005, resulting from a lower average interest rate and a reduction in peso denominated debt, which has a higher interest rate relative to U.S. dollar-denominated debt.

Foreign exchange (loss/gain) amounted to a loss of Ps. 217 million in 2006 compared with a gain of Ps. 318 million in 2005. This loss resulted from the negative effect of the weakening of the Mexican peso on our U.S. dollar-denominated debt during 2006.

Monetary position amounted to a gain of Ps. 1,488 million in 2006 compared with a gain of Ps. 1,204 million in 2005. The increase in the amount of our gain in 2006 compared with 2005 reflects the inflation on our increased liabilities recorded in 2006.

Taxes

Tax recognized in 2006 amounted to Ps. 4,608 million compared to Ps. 4,620 million in 2005. The 0.26% decrease from 2005 is primarily due a reduction in corporate tax rates. Consequently, the effective tax rate in 2006 was 31.8% compared to 33.7% in 2005.

Beginning in 2007, pursuant to Mexican Financial Reporting Standards, we recorded employee profit sharing in the other expenses line, instead of recording it in the income tax line. For comparison purposes we are reflecting this change in information presented for 2006

Net Income

Net income increased 8.7% to Ps. 9,860 million in 2006 compared to Ps. 9,073 million in 2005. This increase was due to growth of 6.0% in income from operations combined with a 12.2% decrease in net interest expense, higher gains on monetary position of 23.6%, and a reduction in the effective tax rate, partially offset by an increase in other expenses.

Net majority income amounted to Ps. 7,127 million in 2006 compared with Ps. 5,951 million in 2005, an increase of 19.8% from 2005 levels. Net majority income per FEMSA Unit was Ps. 1.992 in 2006. Net majority income per FEMSA ADS, considering an exchange rate of Ps. 10.9169 per dollar, was US $1.824 in 2006.

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, 2007, 74.5% 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. 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, 2007:

Principal Uses of Cash

	For the Year Ended December 31,		
	2007	**2006**	**2005**
	(in millions of constant Mexican pesos)		
Net resources generated by operations	Ps. 18,022	Ps. 16,934	Ps. 15,192
Capital expenditures(1)	(11,257)	(9,422)	(7,508)
Bank loans and notes	(1,191)	5,112	(12,457)
Dividends declared and paid	(1,909)	(1,459)	(1,103)

(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.

80

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. 40,029 million as of December 31, 2007, as compared to Ps. 42,419 million as of December 31, 2006. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 9,364 million and Ps. 30,665 million, respectively, as of December 31, 2007, as compared to Ps. 6,746 million and Ps. 35,673 million, respectively, as of December 31, 2006. Cash and cash equivalents were Ps. 10,456 million as of December 31, 2007, as compared to Ps. 8,766 million as of December 31, 2006.

We believe that our sources of liquidity as of December 31, 2007 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 2008 and in the following years.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Table of Contents

Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2007:

	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	Ps. 5,093	Ps. 4,840	Ps. 8,487	Ps. 11,934	Ps. 30,354
U.S. dollars	632	3,411	762	1,155	5,960
Brazilian reais(1)	190	76			266
Capital Leases					
U.S. dollars	2				2
Interest payments(2)					
Mexican pesos	2,546	4,052	3,155	2,289	12,042
U.S. dollars	381	442	195	59	1,077
Brazilian reais	14	2			16
Interest rate swaps(3)					
Mexican pesos	249	397	331	430	1,407
Operating leases					
Mexican pesos	1,309	2,450	2,197	6,639	12,595
U.S. dollars	720	509	13		1,242
Brazilian reais	76	164	22		262
Commodity price contracts					
U.S. dollars	1,905	504	10		2,419
Purchase obligations	514	347			861
Expected benefits to be paid for pension plans, seniority premiums, post-retirement medical benefits and severance indemnities	639	878	975	2,232	4,724
Other long-term liabilities(4)				4,771	4,771

(1) Includes the effect of a cross currency swap, pursuant to which ¥ 2,416 million of denominated in Japanese yen long-term debt is swapped for Brazilian reais, in the amount of Ps. 230 million.

(2) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2007 without considering interest rate swaps agreements. The debt and applicable interest rates in effect are shown in note 17 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 10.8662 per U.S. dollar, the exchange rate quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2007.

(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, 2007.

(4) Other long-term liabilities primarily includes contingent liabilities 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, 2007, Ps. 9,364 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2007, our consolidated average cost of borrowing, after giving effect to the cross currency and interest rate swaps, was approximately 8.7%, very similar to 8.8% in 2006. As of December 31, 2007, after giving effect to cross currency swaps, 76.2% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 20.8% was in U.S. dollars, 1.3% was in Argentine pesos, 1.1% was in Venezuelan bolivars, and the remaining 0.6% was in Brazilian reais.

Table of Contents

Overview of Debt Instruments

The following table shows the allocations of total debt of our company as of December 31, 2007:

	Total Debt Profile of the Company				
	FEMSA and others	Coca-Cola FEMSA	FEMSA Cerveza	FEMSA Comercio	Total Debt
	(in millions of constant Mexican pesos)				
Short-term Debt					
U.S. dollars:					
Bank loans		Ps. 132	Ps. 2,240		Ps. 2,372
Argentine pesos:					
Bank loans		500			500
Venezuelan bolivars:					
Bank loans		425			425
Mexican pesos:					
Bank loans			150		150
Long-term Debt(1)					
Mexican pesos:					
Notes	6,000	8,250			14,250
Bank loans(2)	1,712	4,549	7,335		13,596
U.S. dollars:					
Yankee bond		3,199			3,199
Bank loans		1,847	914		2,761
Leasing		2			2
Units of Investment (UDI)(3)	2,508				2,508
Brazilian reais(4):					
Bank Loans			266		266
Total	Ps. 10,220	Ps. 18,904	Ps. 10,905		Ps. 40,029
Average Cost(5)					
Mexican pesos	9.9%	8.9%	8.9%		9.3%
U.S. dollars		6.4%	6.5%		6.5%
Argentine pesos		11.0%			11.0%
Venezuelan bolivars		15.7%			15.7%
Brazilian reais			11.4%		11.4%
TOTAL	9.9%	8.4%	8.3%		8.7%

(1) Includes the Ps. 5,917 million current portion of long-term debt.

(2) Guaranteed by FEMSA Comercio.

(3) Guaranteed by FEMSA Cerveza.

(4) Includes the effect of cross currency swaps in the amount of Ps. 230 million from Japanese yen to Brazilian reais.

(5) 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 s obligation of Ps. 2,500 million under its *certificados* *bursátiles* is guaranteed by FEMSA Cerveza. Additionally, FEMSA s obligation of Ps. 1,712 million is guaranteed by FEMSA Comercio. 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, 2007. 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, 2007:

Coca-Cola FEMSA. Coca-Cola FEMSA s total indebtedness was Ps. 18,904 million as of December 31, 2007, as compared to Ps. 20,208 million as of December 31, 2006. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 4,809 million and Ps. 14,095 million, respectively, as of December 31, 2007, as compared to Ps. 3,419 million and Ps. 16,789 million, respectively, as of December 31, 2006. Cash and cash equivalents comprised mainly of Mexican pesos, Brazilian reais, Venezuelan bolivars, and U.S. dollars, representing 50%, 33%, 10% and 4%, respectively. As of December 31, 2007, cash and cash equivalents were Ps. 7,542 million, as compared to Ps. 5,074 million as of December 31, 2006. Approximately Ps. 238 million of cash is considered restricted cash because it has been deposited to settle accounts payable in Venezuela and in Brazil. As of December 31, 2007, Coca-Cola FEMSA had a working capital superavit (defined as the excess of current assets over current liabilities) of Ps. 1,261 million, reflecting the increase in cash and cash equivalents, accounts receivable and other assets.

As part of our financing policy, we expect to continue to finance our liquidity needs from cash operations. Nonetheless, as a result of regulations in certain countries in which we operate, it may not be beneficial or, as the case of exchange controls in Venezuela, practicable for us 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, we may decide, or be required, to fund cash requirements in these countries through local borrowings rather than remitting funds from another country. In addition, in the future we may be required to finance our working capital and capital expenditure needs with short-term or other borrowings.

Coca-Cola FEMSA s average cost of debt, after giving effect to cross currency and interest rate swaps, was 6.4% in U.S. dollars, 8.9% in Mexican pesos, 15.7% in Venezuelan bolivars and 11.0% in Argentine pesos as of December 31, 2007 compared to 7.0% in U.S. dollars, 9.5% in Mexican pesos, 8.0% in Colombian pesos, 11.3% in Venezuelan bolivars, and 9.7% in Argentine pesos as of December 31, 2006.

FEMSA Cerveza. As of December 31, 2007, FEMSA Cerveza s total outstanding debt was Ps. 10,905 million, which included Ps. 2,390 million of outstanding short-term trade and working capital loans. As of December 31, 2007, FEMSA Cerveza had Ps. 8,515 million of long-term debt outstanding consisting of bilateral bank loans and equipment financing loans. Cash and cash equivalents comprised of Mexican pesos, Brazilian reais and U.S. dollars, representing 80%, 12% and 8%, respectively. As of December 31, 2007, cash and cash equivalents were Ps. 1,435 as compared to Ps. 2,016 as of December 31, 2006. FEMSA Cerveza s average cost of debt, after giving effect to interest rate swaps, as of December 31, 2007 was 8.9% in Mexican pesos, 6.5% in U.S. dollars and 11.4% in Brazilian reais.

FEMSA Comercio. As of December 31, 2007, FEMSA Comercio does not have outstanding debt.

Table of Contents

FEMSA and other business. As of December 31, 2007, FEMSA and the companies comprising our other business had total outstanding debt of Ps. 10,220 million, all of which was long term. This consisted of Ps. 2,500 million of *certificados bursátiles,* which mature in July 2008 and July 2009 and are guaranteed by FEMSA Cerveza, and Ps. 6,008 million of *certificados bursátiles*, which mature in December 2012 and December 2017 and are guranteed by FEMSA Cerveza, and Ps. 1,712 million which mature in August 2010 and are guaranteed by FEMSA Comercio. FEMSA s average cost of debt, after giving effect to interest rate swaps, as of December 31, 2007 was 9.9% in Mexican pesos.

Contingencies

We have various loss contingencies, for which reserves have been recorded in those cases where we believe an unfavorable resolution is probable. See Item 8. Financial Information Legal Proceedings. Most of these loss contingencies were recorded as reserves against intangibles recorded as a result of Panamco and Kaiser acquisitions. 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, 2007:

	Loss Contingencies As of December 31, 2007 (in millions of constant Mexican pesos)
Tax	Ps. 1,725
Legal	268
Labor	649
TOTAL	Ps. 2,642

As is customary in Brazil, we have been asked by the tax authorities to collateralize tax contingencies currently in litigation in respect of Ps. 1,887 by pledging fixed assets and entering into available lines of credit to cover such contingencies.

We have other 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. As of December 31, 2007 the aggregate amount of contingencies for which we have not recorded a reserve was $311 million. These contingencies have been classified as less than probable by our legal counsel.

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. 11,257 million in 2007 compared to Ps. 9,422 million in 2006, an increase of 19.5%. This was primarily due to an increase in capital expenditures at FEMSA Cerveza and Coca-Cola FEMSA. 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. See Item 4. Information on the Company Capital Expenditures and Divestitures.

Expected Capital Expenditures for 2008

Our capital expenditure budget for 2008 is expected to be approximately $1.4 billion. The following discussion is based on each of our sub-holding companies internal 2008 budgets. The capital expenditure plan for 2008 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 2008 are expected to be approximately $470 million. Coca-Cola FEMSA s capital expenditures in 2008 are primarily intended for:

investment in manufacturing lines;

returnable bottles and cases;

market investments (primarily for the placement of refrigeration equipment); and

improvements throughout distribution network.

Table of Contents

Coca-Cola FEMSA estimates that the projected capital expenditures for 2008 will be evenly divided between its Mexican and non-Mexican territories.

FEMSA Cerveza s capital expenditure budget for 2008 is expected to be approximately $733 million. FEMSA Cerveza expects to allocate part of this budget for investments in its manufacturing facilities in Mexico and Brazil, related to the construction of the Meoqui beer plant and glass bottle facility, and in 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 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 development of long-term sponsorships and the placement of refrigeration equipment nationwide.

FEMSA Comercio s capital expenditure budget in 2008 is expected to total approximately $172 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 updates 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, 2007 The fair market value is obtained mainly from external sources, which are our counterparties to the contracts.

	Fair Value At December 31, 2007				
	Maturity less than 1 year	Maturity 1 - 3 years	Maturity 3 - 5 years	Maturity in excess of 5 years	Fair Value Asset (Liability)
	(in millions of constant Mexican pesos)				
Prices quoted by external sources	(164)	(171)	(139)	17	(457)

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 net realizable value without exceeding their restated acquisition cost. These assets are allocated as follows:

	December31,	
	2007	2006
	(in millions of constant Mexican pesos)	
Coca-Cola FEMSA	Ps. 94	Ps. 196
FEMSA Cerveza	218	293
FEMSA and other	250	307
Total	Ps. 562	Ps. 796

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 Financial Reporting Standards 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 Financial Reporting Standards but presented under the equity method for U.S. GAAP purposes;
- FEMSA s minority interest acquisition and sales;
- deferred income taxes and deferred employee profit sharing;
- restatement of imported machinery and equipment;
- capitalization of integral result of financing;
- labor liabilities, and
- start-up expenses.

For a more detailed description of the differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income, changes in stockholders equity and cash flows for the same periods presented for Mexican Financial Reporting Standards purposes and a reconciliation of net income and stockholders equity under Mexican Financial Reporting Standards to net income and stockholders equity under U.S. GAAP, see notes 26 and 27 to our audited consolidated financial statements.

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

Under U.S. GAAP, we had net income of Ps. 8,557 million and Ps. 6,973 million in 2007 and 2006, respectively. Under Mexican Financial Reporting Standards, we had net majority income of Ps. 8,511 million and Ps. 7,127 million in 2007 and 2006, respectively. In 2007, net income under U.S. GAAP was higher than net majority income under Mexican Financial Reporting Standards, mainly as a result of the effect of deferred income taxes and deferred employee profit sharing.

Stockholders equity under U.S. GAAP as of December 31, 2007 and 2006 was Ps. 82,606 million and Ps. 73,925 million, respectively. Under Mexican Financial Reporting Standards, majority stockholders equity as of December 31, 2007 and 2006 was Ps. 64,578 million and Ps. 56,654 million, respectively. The principal reasons for the difference between stockholders equity under U.S. GAAP and majority stockholders equity under Mexican Financial Reporting Standards were the effect of the goodwill generated by the minority interest acquisitions, deferred income tax, labor liabilities, 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 and in our chief executive officer. Our bylaws provide that the board of directors will consist of no more than 21 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. Alternate directors are authorized to serve on the board of directors in place of their specific 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. See Item 10. Additional Information Bylaws.

In accordance with our bylaws and article 24 of the Mexican Securities Law, at least 25% of the members of our board of directors must be independent, (as defined by the Mexican Securities Law).

Table of Contents

The board of directors may designate interim directors in the case that a director is absent or an elected director and corresponding alternate are unable to serve. Such interim directors shall serve until the next shareholders meeting, at which the Shareholders shall elect a replacement.

Our bylaws provide that the board of directors shall meet at least once every 3 months. Actions by the board of directors must be approved by at least a majority of the directors present and voting. The chairman of the board of directors, the chairman of our audit or corporate practices committee, or at least 25% of our directors may call a board of directors meeting and include matters in the meeting agenda.

Series B Directors

Eugenio Garza Lagüera *Director and Honorary Life Chairman*	Born:	December 1923
	First elected:	1960
	Term expires:	2009*
		*Mr. Garza Lagüera passed away on May 24, 2008.
	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:	Mariana Garza de Treviño[(1)(2)]
José Antonio Fernández Carbajal[(3)] *Director and Chairman of the Board*	Born:	February 1954
	First elected (Chairman):	2001
	First elected (Director):	1984
	Term expires:	2009
	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, BBVA Bancomer, S.A., Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Industrial Bimbo, S.A.B. de C.V. (Bimbo), Grupo Televisa S.A.B. and Controladora Vuela Compañia de Aviación S.A. de CV (Volaris)
	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
Bárbara Garza de Braniff[(1)(2)] *Director*	Born:	April 1958
	First elected:	2005
	Term expires:	2009
	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:	Eva Garza de Fernández[(1)(4)]

Table of Contents

José Calderón Rojas *Director*	Born:	July 1954
	First elected:	2005
	Term expires:	2009
	Principal occupation:	Chairman of the board of Directors and Executive Vice-President of Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., Franca Servicios, S.A. de C.V. and Franca Industrias, S.A. de C.V.
	Other directorships:	Member of the Board of BBVA Bancomer and Alfa, S.A.B. de C.V. (Alfa)
	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) *Director*	Born:	October 1930
	First elected:	1995
	Term expires:	2009
	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 *Director*	Born:	July 1932
	First elected:	1985
	Term expires:	2009
	Principal occupation:	Honorary Chairman of the Board of El Puerto de Liverpool, S.A.B. de C.V.
	Other directorships:	Member of the boards of Grupo Lamosa, S.A.B. de C.V., Industrias Peñoles, S.A. de C.V., and Grupo Nacional Provincial, S.A. (GNP)
	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:	2009
	Principal occupation:	Chairman of the boards of Grupo BAL, S.A. de C.V. Peñoles, GNP, Grupo Palacio de Hierro, S.A.B. de C.V., Grupo Profuturo, S.A.B. de C.V. and Instituto Tecnológico Autónomo de México.
	Other directorships:	Member of the boards of BBVA Bancomer, BBVA Bancomer, S.A., BBVA Bancomer Servicios, S.A., Dine, S.A.B. de C.V. (formerly Grupo Desc) (Dine), Televisa, Grupo Kuo, S.A.B. de C.V. (formerly Grupo Desc) (Kuo) 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 Pérez
Francisco Javier	Born:	April 1955
Fernández Carbajal[9]		
Director	First elected:	2005
	Term expires:	2009
	Principal occupation:	Private business consultant
	Other directorships:	Chairman of the boards of Primero Fianzas, S.A. de C.V. and Primero Seguros, S.A. de C.V. Member of the boards of Visa, Inc., Grupo Aeroportuario del Pacífico, S.A.B. de C.V., Fresnillo, Ltd., Base Internacional, Casa de Bolsa.
	Education:	Holds degrees in mechanical and electrical engineering from ITESM and an MBA from Harvard Business School
	Alternate director:	Javier Astaburuaga Sanjines
Ricardo Guajardo	Born:	May 1948
Touché		
Director	First elected:	1988
	Term expires:	2009
	Principal occupation:	Former Chairman of the Board of BBVA Bancomer
	Other directorships:	Member of the Board of El Puerto de Liverpool, S.A.B. de C.V., Alfa, BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A. de C.V. (ASUR), Bimbo and Coca-Cola FEMSA.
	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:	2009
	Principal occupation:	President of Praxis Financiera, S.C.
	Other directorships:	Member of the boards of Grupo Jomar, S.A. de C.V., British American Tobacco (Mexican board), Grupo Acosta Verde, Thermotek and Grupo Fianciero Banorte (alternate)
	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 Sendra	Born:	January 1928
Director	First elected:	1995
	Term expires:	2009
	Principal occupation:	Chairman of the board of Bimbo S.A.B.
	Other directorships:	Member of the boards of Chrysler de México, S.A. de C.V., Grupo Altex, S.A. de C.V., Escuela Bancaria y Comercial, Memorial Hermann International and ASUR.
	Business experience:	Founding member and active chairman of Bimbo
	Education:	Holds a PMD degree from Harvard University
	Alternate director:	Juan Guichard Michel(8)
Carlos Salguero	Born:	October 1929
Director	First elected:	1995
	Term expires:	2009
	Business experience:	Former Executive Vice President of Phillip Morris International
	Other directorships:	Member of the boards of Hotel Esencia, México, City Net, España and Mazarron Beach. 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:	Alfonso González Migoya
Paulina Garza de Marroquín(1)(2)	Born:	March 1972
Director	First elected:	1999 as alternate; 2004 as main Board Member
	Term expires:	2009
	Business experience:	Private Investor
	Other directorships:	
	Education:	Holds a business administration degree from ITESM
	Alternate director:	Carlos Salazar Lomelín
José Manuel Canal Hernando	Born:	February 1940
Director	First elected:	2003
	Term expires:	2009
	Principal occupation:	Private consultant
	Other directorships:	Chairman of the board of Banco Compartamos, S.A. Member of the boards of Coca-Cola FEMSA and member of its audit committee; ALSEA, S.A.B. de C.V. and chairman of its audit committee. Member of the boards and audit committees of Dine and Kuo.
	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

Table of Contents

Series D

Directors

Armando Garza Sada	Born:	June 1957
Director	First elected:	2006
	Term expires:	2009
	Principal occupation:	Executive Vice-President of Corporate Development of Alfa, S.A.B. de C.V.
	Other directorships:	Member of the Board of Directors of Alfa, Grupo Gigante, S.A. de C.V., El Puerto de Liverpool. S.A.B. de C.V., Grupo Lamosa S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V. and CYDSA, S.A.B. de C.V.
	Business experience:	He has a long professional career in Alfa, 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:	Eduardo Padilla Silva
Alexis E. Rovzar de la Torre	Born:	July 1951
Director	First elected:	1989
	Term expires:	2009
	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 S.A.B. de C.V., Bank of Nova Scotia, and Grupo ACIR, 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
Helmut Paul	Born:	March 1940
Director	First elected:	1988
	Term expires:	2009
	Principal occupation:	Owner of H. Paul & Company LLC (a corporate finance advisory firm)
	Other directorships:	Member of the boards of Zurich Emerging Markets Solutions and Coca-Cola FEMSA.
	Business experience:	Ex-director Latin-America International Finance Corporation (IFC), and senior advisor of Darby Overseas Investment, Ltd.
	Education:	Holds an MBA from the University of Hamburg
	Alternate director:	Antonio Elosúa Muguerza

Table of Contents

Lorenzo H. Zambrano *Director*	Born:	March 1944
	First elected:	1995
	Term expires:	2009
	Principal occupation:	Chairman and Chief Executive Officer of Cemex, S.A.B. de C.V.
	Other directorships:	Member of the boards of IBM Corporation, Alfa, S.A.B. de C.V. (Human Resources Committee), Vitro, S.A.B. de C.V. (Chairman of the Compensation Committee), Grupo Televisa, S.A.B. 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 *Director*	Born:	August 1945
	First elected:	2001
	Term expires:	2009
	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

(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.

Table of Contents

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 *Chief Executive Officer*	See Directors.	
	Joined FEMSA:	1987
	Appointed to current position:	1994
Javier Astaburuaga Sanjines *Executive Vice-President of Finance and Strategic Development*	Born:	July 1959
	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 *Executive Vice-President of Corporate Development*	Born:	September 1945
	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)
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

Table of Contents

Genaro Borrego Estrada	Born:	February, 1949
Director of Corporate Affairs	Joined FEMSA:	2007
	Appointed to current position:	2007
	Professional Experience:	Constitutional Governor of the Mexican State of Zacatecas from 1986 to 1992, General Director of the Mexican Social Security Institute from 1993 to 2000, and Senator in Mexico for the State of Zacatecas from 2000 to 2006.
	Education:	Holds a bachelor s degree in International Relations from the Universidad Iberoamericana.
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 is engaged in postgraduate studies in business administration and economic development in Italy

Table of Contents

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 Alfa, 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, 2007, the aggregate compensation paid to our directors was approximately Ps. 5.3 million.

For the year ended December 31, 2007, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 1,290 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, 2007, amounts set aside or accrued for all employees under these retirement plans were Ps. 6,562 million, of which Ps. 2,902 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 and corporate practices committees of our 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.

Shares were granted in 2003 under this plan, and the plan was terminated in February 2008.

EVA Stock Incentive Plan

In 2005, we, along with our subsidiaries, commenced a new stock incentive plan for the benefit of our executive officers, which we refer to as the EVA stock incentive plan. This plan replaced the stock incentive plan described above and was developed using as the main metric for the first three years of the plan 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 shares.

Under this plan, each year, our Chief Executive Officer in conjunction with 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 shares. 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 shares 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. 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 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 30, 2008, the trust that manages the EVA stock incentive plan holds a total of 9,781,435 BD Units of FEMSA and 2,471,075 Series L Shares of Coca-Cola FEMSA, each representing 0.05% and 0.13% 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 30, 2008, 6,914,592,885 Series B Shares representing 74.78% 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 30, 2008 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	
Beneficial Owner	Shares	Percent of Class	Shares	Percent of Class	Shares	Percent of Class
The estate of Eugenio Garza Lagüera	7,566,600	0.08%	26,654,808	0.62%	26,654,808	0.62%
Consuelo Garza de Garza	63,024,300	0.68%	12,754,950	0.30%	12,754,950	0.30%
Max Michel Suberville	0	0.00%	34,759,260	0.80%	34,759,260	0.80%
Alberto Bailleres	3,093,825	0.03%	11,192,112	0.26%	11,192,112	0.26%
Juan Guichard Michel	366,930		0	0.00%	0	0.00%
Alfonso Garza Garza	19,200		324,306	0.01%	324,306	0.01%

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 even after the term for which they were appointed ends for up to 30 calendar days, as set forth in article 24 of Mexican Securities Law. 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. Each committee has a secretary who attends meetings but is not a member of the committee. The following are the three committees of the board of directors:

Audit Committee. 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), 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 Committee. Responsibilities include (1) evaluating the investment and financing policies proposed by the Chief Executive Officer; and (2) evaluating risk factors to which the corporation is exposed, as well as evaluating its management policies. The current Finance Committee members are: Ricardo Guajardo Touché (chairman), Federico Reyes García, Robert E. Denham, Francisco Javier Fernandez Carbajal and Alfredo Livas Cantú. Javier Astaburuaga Sanjines is the appointed secretary of this committee.

Table of Contents

Corporate Practices Committee. Under the Mexican Securities Law enacted in 2006, listed stock companies no longer have a statutory examiner. Instead, the functions previously performed by the statutory examiner are vested in the newly created Corporate Practices Committee, together with the Audit Committee. The Corporate Practices Committee, which consists of independent directors, is responsible for preventing or reducing the risk of performing operations that could damage the value of our company or that benefit a particular group of shareholders. The committee may call a shareholders meeting and include matters on the agenda for that meeting that it may deem appropriate, approve policies on the use of our company s assets or related party transactions, approve the compensation of the chief executive officer and relevant officers and support our board of directors in the elaboration of reports on accounting practices. The chairman of the Corporate Practices Committee is Lorenzo H. Zambrano. The additional members include: Carlos Salguero and Helmut Paul. The Secretary of the Corporate Practices Committee is Alfonso Garza Garza.

Employees

As of December 31, 2007, our headcount by geographic region was as follows: 70,603 in Mexico, 5,282 in Central America, 7,961 in Colombia, 7,980 in Venezuela, 9,786 in Brazil and 3,408 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, 2007, 2006 and 2005:

	Headcount for the Year Ended December 31,						
	2007			2006		2005	
	Non-Union	Union	Total	Non-Union	Union	Non-Union	Union
Sub-holding company							
Coca-Cola FEMSA(1)	32,657	25,465	58,122	31,695	24,987	32,632	23,003
FEMSA Cerveza	13,751	10,708	24,459	13,426	10,570	11,765	8,049
FEMSA Comercio(2)	4,488	11,336	15,824	4,072	7,380	3,863	5,371
Other	2,661	3,954	6,615	1,978	3,662	1,943	4,105
Total	53,557	51,463	105,020	51,171	46,599	50,203	40,528

(1) Includes employees of third party distributors who we do not consider to be our employees of 16,089**,** 16,745 and 16,421 in 2007, 2006, and 2005, respectively.

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

As of December 31, 2007, our subsidiaries had entered into 420 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, 2007

Sub-holding Company	Collective Bargaining Agreements	Labor Unions
Coca-Cola FEMSA	106	41
FEMSA Cerveza	157	8
FEMSA Comercio[1]	80	9
Others	77	10
Total	420	68

(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 30, 2008. 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 30, 2008

	Series B Shares[(1)]		Series D-B Shares[(2)]		Series D-L Shares[(3)]		Total Shares of FEMSA Common Stock
Shareholder	**Shares Owned**	**Percent of Class**	**Shares Owned**	**Percent of Class**	**Shares Owned**	**Percent of Class**	
Technical Committee and Trust Participants under the Voting Trust[(4)]	6,914,592,885	74.78%	0	0%	0	0%	38.65%

(1) As of May 30, 2008, there were 9,246,420,270 Series B Shares outstanding.

(2) As of May 30, 2008, there were 4,322,355,540 Series D-B Shares outstanding.

(3) As of May 30, 2008, there were 4,322,355,540 Series D-L Shares outstanding.

(4) As a consequence of the voting trust 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), the estate of 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 González, Maria Teresa Gual Aspe de Bailleres, Inversiones Bursátiles Industriales, S.A. de C.V. (controlled by the estate of 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), BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/29490-0 (controlled by Alberto, Susana and Cecilia Bailleres), BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/710004 (controlled by Magdalena Michel de David) and BBVA Bancomer Servicios, S.A., as Trustee under Trust No. F/700005 (controlled by Renee Michel de Guichard).

As of May 30, 2008, there were 296 holders of record of ADSs in the United States, which represented approximately 69.9%% 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.

We, along with certain of our subsidiaries, regularly engage in financing and insurance coverage transactions, including entering into loans, bond offerings in the local capital markets and credit line facilities, with subsidiaries of BBVA Bancomer, a financial services holding company of which José Antonio Fernández Carbajal, our Chairman and Chief Executive Officer, Alberto Bailleres and Ricardo Guajardo Touché, who is also a director of FEMSA, are directors. We made interest expense payments to BBVA Bancomer in respect of these transactions of Ps. 305 million, Ps. 257 million and Ps. 253 million as of the end of December 31, 2007, 2006 and 2005, respectively. The total amount due to BBVA Bancomer as of the end of December 31, 2007 and 2006 were Ps. 1,712 million and Ps. 1,776 million, respectively.

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. 31 million, Ps. 41 million and Ps. 54 million in 2007, 2006 and 2005, respectively.

FEMSA Comercio in its ordinary course of business, purchased Ps. 1,324 million, Ps. 1,034 million and Ps. 950 million in 2007, 2006 and 2005, respectively, in baked goods and snacks for its stores from subsidiaries of Grupo Bimbo S.A.B. de C.V., of which the chairman of the board is Roberto Servitje, a director of FEMSA. Additionally, FEMSA Comercio purchased Ps. 1,064 million, Ps. 775 million and Ps. 628 million in 2007, 2006 and 2005, respectively, in cigarettes from British American Tobacco Mexico (BAT Mexico), of which Alfredo Livas Cantú, who is member of the board of directors of FEMSA, is also a member of the board of directors of BAT Mexico. 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, Ricardo Guajardo Touché and Lorenzo H. Zambrano, who are directors of FEMSA, and Eva Garza de Fernández, who is an alternate director 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. 12,239 million, Ps. 10,322 million and Ps. 9,112 million in 2007, 2006 and 2005, 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. 1,582 million, Ps. 1,261 million and Ps. 1,098 million in 2007, 2006 and 2005, respectively.

On December 2007 and May 2008, Coca-Cola FEMSA sold certain of its proprietary brands to The Coca-Cola Company. These trademarks are now being licensed to Coca-Cola FEMSA by The Coca-Cola Company.

In Argentina, Coca-Cola FEMSA 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.

On November 8, 2007, Administración S.A.P.I. de C.V., a Mexican company jointly owned by Coca-Cola FEMSA and The Coca-Cola Company, acquired 58,350,908 shares, representing 100% of the shares of capital stock of Jugos del Valle, for US$ 370 million (Ps. 4,020 million), paid in cash, assuming liabilities of US$ 86 million (Ps. 934 million).

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See pages F-1 through F-56, 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 condition or results of operations.

Table of Contents

Coca-Cola FEMSA

Mexico

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 2002, the Mexican Antitrust Commission determined that The *Coca-Cola* Company *s* bottlers engaged in monopolistic practices through exclusivity arrangements with certain retailers. The Mexican Antitrust Commission did not impose any fines, but ordered The *Coca-Cola* Company s 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) that 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.

The case was inactive until May 2005, when the Mexican Antitrust Commission ordered the reopening of the proceeding. In the proceeding, the Mexican Antitrust Commission determined, as in its first instance resolution, that the Coca-Cola bottlers engaged in monopolistic practices and (1) ordered the immediate suspension of such practices of alleged exclusivity arrangements and (2) imposed a fine of approximately Ps. 10.5 million to each of the six subsidiary companies investigated.

Coca-Cola FEMSA filed an *amparo* proceeding challenging this rule in Mexican federal court, and an order was issued in its favor that granted protection against the resolution of the Mexican Antitrust Commission. The Mexican Antitrust Commission and the plaintiffs appealed this order before a *Tribunal Colegiado de Circuito* (Mexican Federal Court), which in turn sent the case to the *Suprema Corte de Justicia de la Nación* (Mexican Supreme Court) to render a final decision on this matter based on constitutional questions. The Mexican Supreme Court rendered a decision and sent the case back to the Mexican Federal Court. In May 2008, a final judgment was issued by the Mexican Federal Court against two of Coca-Cola FEMSA s subsidiaries imposing a fine of approximately Ps. 10.5 million to each company. Coca-Cola FEMSA is still awaiting the final judgment for the remaining four subsidiaries.

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 Ajemex, S.A. de C.V. (Big Cola). 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 stati