

As filed with the Securities and Exchange Commission on April 27, 2012.

**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, 2011

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)

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address of company contact person)

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

Title of each class:

**American Depositary Shares, each representing 10 BD Units, and
each BD Unit consisting of one Series B Share, two Series D-B Shares
and two Series D-L Shares, without par value**

Name of each exchange on which registered:

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.

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

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A

Yes

No

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

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

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

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

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

No

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INTRODUCTION

This annual report contains information materially consistent with the information presented in the audited financial statements and is free of material misstatements of fact that are not material inconsistencies with the information in the audited financial statements.

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. and, 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,” 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 used in the United Mexican States, or Mexico, to denominate a publicly traded company under the Mexican Securities Market Law (*Ley del Mercado de Valores*), which we refer to as the Mexican Securities Law.

References to “U.S. dollars,” “US\$,” “dollars” or “\$” are to the lawful currency of the United States of America (which we refer to as the United States). References to “Mexican pesos,” “pesos” or “Ps.” are to the lawful currency of Mexico. References to “euros” or “€” are to the lawful currency of the European Economic and Monetary Union (which we refer to as the Euro Zone).

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. 13.9510 to US\$ 1.00, the noon buying rate for Mexican pesos on December 30, 2011, as published by the Federal Reserve Bank of New York. On March 30, 2012, this exchange rate was Ps. 12.8115 to US\$ 1.00. See “Item 3. Key Information—Exchange Rate Information” for information regarding exchange rates since 2007.

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 (National Institute of Statistics, Geography and Information, which we refer to as INEGI), the Federal Reserve Bank of New York, the U.S. Federal Reserve Board and *Banco de México* (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, 2011 and 2010, and the related consolidated statements of income, cash flows and changes in stockholders' equity for the years ended December 31, 2011, 2010 and 2009. Our audited consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards (*Normas de Información Financiera Mexicanas*, which we refer to as Mexican FRS or NIF), 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 FRS and U.S. GAAP as they relate to our company, together with a reconciliation to U.S. GAAP of net income, comprehensive income and stockholders' equity as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income and cash flows for the same periods presented for Mexican FRS purposes and for the consolidated statement of changes in stockholders' equity for the years ended December 31, 2011 and 2010.

In the reconciliation to U.S. GAAP for the year ended December 31, 2009, we present our subsidiary Coca-Cola FEMSA, which is a consolidated subsidiary for purposes of Mexican FRS, 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 during that year. On February 1, 2010, FEMSA and The Coca-Cola Company signed an amendment to their Shareholders' Agreement. As a result of this amendment, FEMSA began to consolidate Coca-Cola FEMSA for U.S. GAAP purposes on this date. See Note 26A to our audited consolidated financial statements.

Beginning in 2012, Mexican issuers with securities registered in the National Securities Registry (Registro Nacional de Valores) of the Comisión Nacional Bancaria y de Valores (Mexican National Banking and Securities Commission, or the CNBV) are required to prepare financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, which we refer to as IFRS. Accordingly, as of January 1, 2012, we are preparing our financial information in accordance with IFRS and will present financial information for 2011 on a comparable basis. See Note 28 to our audited consolidated financial statements.

Beginning on January 1, 2008, in accordance with changes to NIF B-10 under Mexican FRS, we discontinued the use of inflation accounting for our subsidiaries that operate in "non-inflationary" countries where cumulative inflation for the three preceding years was less than 26%. Our subsidiaries in Mexico, Guatemala, Panama, Colombia and Brazil operate in non-inflationary economic environments, and therefore 2011, 2010 and 2009 figures reflect inflation effects only through 2007. Our subsidiaries in Nicaragua, Costa Rica, Venezuela and Argentina operate in economic environments in which cumulative inflation during the same three-year periods was greater than 26%, and we therefore continue recognizing inflationary accounting for 2011, 2010 and 2009. For comparison purposes, the figures prior to 2008 have been restated in Mexican pesos with purchasing power as of December 31, 2007, taking into account local inflation for each country with reference to the consumer price index. Local currencies have been converted into Mexican pesos using official exchange rates published by the local central bank of each country. Our subsidiary in the Euro Zone, CB Equity LLP (which we refer to as CB Equity), operated in a non-inflationary economic environment in 2011 and 2010. See Note 4 to our audited consolidated financial statements.

As a result of discontinuing inflationary accounting for subsidiaries that operate in non-inflationary economic environments, the financial statements are no longer considered to be presented in a reporting currency that comprehensively includes the effects of price level changes. Therefore, the inflationary effects of inflationary economic environments arising in 2009, 2010 and 2011 result in a difference that must be reconciled for U.S. GAAP purposes, except for Venezuela, which is considered to be a hyperinflationary environment since January 2010 and for which inflationary effects have not been reversed under U.S. GAAP. See Notes 26 and 27 to our audited consolidated financial statements.

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On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in Heineken Holding N.V. and Heineken N.V., which, together with their respective subsidiaries, we refer to as Heineken or the Heineken Group. See “Item 4. Information on the Company—FEMSA Cerveza and Equity Method Investment in the Heineken Group.” Under Mexican FRS, we have reclassified our consolidated statements of income and cash flows for the year ended December 31, 2009 to reflect Cuauhtémoc Moctezuma Holding, S.A. de C.V. (formerly FEMSA Cerveza, S.A. de C.V.), which we refer to as Cuauhtémoc Moctezuma or FEMSA Cerveza, as a discontinued operation. However, FEMSA Cerveza is not presented as a discontinued operation under U.S. GAAP. See “Item 5. Operating and Financial Review and Prospects—U.S. GAAP Reconciliation” and Notes 26 and 27 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 from operations at or for any future date or period. Under Mexican FRS, FEMSA Cerveza figures for years prior to 2010 have been reclassified and presented as discontinued operations for comparison purposes to 2011 and 2010 figures. See Note 5B to our audited consolidated financial statements. Under U.S. GAAP, FEMSA Cerveza figures are presented as a continuing operation.

	Selected Consolidated Financial Information					
	Year Ended December 31,					
	2011 ⁽²⁾	2011	2010	2009	2008	2007
	(in millions of U.S. dollars and millions of Mexican pesos, except for percentages, per share data and weighted average number of shares outstanding)					
Income Statement Data:						
Mexican FRS:⁽¹⁾						
Total revenues	\$ 14,554	Ps.203,044	Ps.169,702	Ps.160,251	Ps.133,808	Ps.114,459
Income from operations ⁽³⁾	1,928	26,904	22,529	21,130	17,349	14,300
Income taxes ⁽⁴⁾	550	7,687	5,671	4,959	3,108	3,931
Consolidated net income before discontinued operations	1,483	20,684	17,961	11,799	7,630	8,438
Income from the exchange of shares with Heineken, net of taxes	—	—	26,623	—	—	—
Net income from discontinued operations	—	—	706	3,283	1,648	3,498
Consolidated net income	1,483	20,684	45,290	15,082	9,278	11,936
Net controlling interest income	1,085	15,133	40,251	9,908	6,708	8,511
Net non-controlling interest income	398	5,551	5,039	5,174	2,570	3,425
Net controlling interest income before discontinued operations:						
Per Series B Share	0.05	0.75	0.64	0.33	0.25	0.25
Per Series D Share	0.07	0.94	0.81	0.42	0.32	0.32
Net controlling income from discontinued operations:						
Per Series B Share	—	—	1.37	0.16	0.08	0.17
Per Series D Share	—	—	1.70	0.20	0.10	0.21
Net controlling interest income:						
Per Series B Share	0.05	0.75	2.01	0.49	0.33	0.42
Per Series D Share	0.07	0.94	2.51	0.62	0.42	0.53
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4
Series D Shares	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7
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%

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Selected Consolidated Financial Information
Year Ended December 31,

	2011 ⁽²⁾	2011	2010	2009	2008	2007
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(in millions of U.S. dollars and millions of Mexican pesos, except for percentages, per share data and weighted average number of shares outstanding)

U.S. GAAP:⁽⁴⁾

Total revenues	\$ 14,640	Ps.204,242	Ps.177,053	Ps.102,902	Ps.91,650	Ps.83,362
Income from operations	1,810	25,252	21,235	8,661	7,881	7,667
Participation in Coca-Cola FEMSA's earnings ⁽⁴⁾	—	—	183	4,516	2,994	3,635
Consolidated net income	1,279	17,851	72,204 ⁽¹⁰⁾	10,685	6,599	8,589
Less: Net income attributable to the non-controlling interest income	(387)	(5,402)	(4,759)	(783)	253	(32)
Net income attributable to controlling interest income	892	12,449	67,445	9,902	6,852	8,557
Net controlling interest income:						
Per Series B Share	0.04	0.62	3.36	0.49	0.34	0.43
Per Series D Share	0.06	0.78	4.20	0.62	0.43	0.53
Weighted average number of shares outstanding (in millions):						
Series B Shares	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4	9,246.4
Series D Shares	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7	8,644.7

Balance Sheet Data:

Mexican FRS:⁽¹⁾

Total assets of continuing operations	\$ 19,691	Ps.274,704	Ps.223,578	Ps.153,638	Ps.126,833	Ps.114,537
Total assets of discontinued operations	—	—	—	72,268	71,201	68,881
Current liabilities of continuing operations	2,769	38,630	30,516	37,218	35,351	28,783
Current liabilities of discontinued operations	—	—	—	10,883	12,912	13,581
Long-term debt of continuing operations ⁽⁵⁾	1,723	24,031	22,203	21,260	21,853	23,066
Other long-term liabilities of continuing operations	1,500	20,929	17,846	8,500	8,285	9,882
Non-current liabilities of discontinued operations	—	—	—	32,216	22,738	18,453
Capital stock	383	5,348	5,348	5,348	5,348	5,348
Total stockholders' equity	13,699	191,114	153,013	115,829	96,895	89,653
Controlling interest	9,575	133,580	117,348	81,637	68,821	64,578
Non-controlling interest	4,124	57,534	35,665	34,192	28,074	25,075

U.S. GAAP:⁽⁴⁾

Total assets	\$ 27,956	Ps.390,016	Ps.334,517	Ps.158,000	Ps.139,219	Ps.127,167
Current liabilities	2,772	38,676	30,629	23,539	23,654	18,579
Long-term debt ⁽⁵⁾	1,722	24,031	21,927	24,119	19,557	16,569
Other long-term liabilities	3,164	44,148	39,825	10,900	9,966	8,715
Non-controlling interest	7,205	100,517	78,495	1,274	505	698
Controlling interest	13,092	182,644	163,641	98,168	85,537	82,606
Capital stock	383	5,348	5,348	5,348	5,348	5,348
Stockholders' equity ⁽⁶⁾	20,297	283,161	242,136	99,442	86,042	83,304

Other information:

Mexican FRS:⁽¹⁾

Depreciation ⁽⁷⁾	\$ 394	Ps.5,498	Ps.4,527	Ps.4,391	Ps.3,762	Ps.4,930
Capital expenditures ⁽⁸⁾	897	12,515	11,171	9,067	7,816	5,939
Operating margin ⁽⁹⁾	13.2%	13.2%	13.3%	13.2%	13.0%	12.5%

U.S. GAAP:

Depreciation ⁽⁷⁾	\$ 412	Ps.5,743	Ps.4,884	Ps.2,786	Ps.2,439	Ps.2,114
Operating margin ⁽⁹⁾	12.4%	12.4%	11.9%	8.4%	8.6%	9.2%

(1) As a result of the FEMSA Cerveza share exchange with the Heineken Group on April 30, 2010, related figures are presented as discontinued operations for Mexican FRS purposes. As a result, prior year financial information has been modified in order to conform to 2010 financial information.

(2) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.9510 to US\$ 1.00 solely for the convenience of the reader.

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- (3) Beginning in 2008, NIF D-3, “Employee Benefits,” permitted the presentation of financial expenses related to labor liabilities as part of the comprehensive financing result, which was previously recorded within operating income. Accordingly, information for 2007 has been reclassified for comparability purposes.
- (4) As of February 1, 2010, Coca-Cola FEMSA has been consolidated for U.S. GAAP purposes. Prior to that date, Coca-Cola FEMSA was recorded under the equity method, as discussed in Note 26A to our audited consolidated financial statements.
- (5) Includes long-term debt minus the current portion of long-term debt.
- (6) As of January 1, 2009, U.S. GAAP requires that non-controlling interest be included as part of the total stockholders’ equity. This standard was applied retrospectively for comparative purposes.
- (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.
- (10) Includes gain recognized in other income due to control acquisition of Coca-Cola FEMSA. See Note 26A to our audited consolidated financial statements.

Dividends

We have historically paid dividends per BD Unit (including in the form of American Depositary Shares, or ADSs) approximately equal to or greater than 1% of the market price on the date of declaration, subject to changes in our results from operations and financial position, including due to extraordinary economic events and to the factors described in “Item 3. Key Information—Risk Factors” that affect our financial condition and liquidity. These factors may affect whether or not dividends are declared and the amount of such dividends. We do not expect to be subject to any contractual restrictions on our ability to pay dividends, although our subsidiaries may be subject to such restrictions. Because we are a holding company with no significant operations of our own, we will have distributable profits and cash to pay dividends only to the extent that we receive dividends from our subsidiaries. Accordingly, we cannot assure you that we will pay dividends or as to the amount of any dividends.

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican peso and U.S. dollar amounts and their respective payment dates for the 2007 to 2011 fiscal years:

<u>Date Dividend Paid</u>	<u>Fiscal Year with Respect to which Dividend was Declared</u>	<u>Aggregate Amount of Dividend Declared</u>	<u>Per Series B Share Dividend</u>	<u>Per Series B Share Dividend</u>	<u>Per Series D Share Dividend</u>	<u>Per Series D Share Dividend</u>
May 15, 2007	2006 ⁽¹⁾	Ps.1,485,000,000	Ps.0.0741	\$ 0.0069	Ps.0.0926	\$ 0.0086
May 8, 2008	2007 ⁽¹⁾	Ps.1,620,000,000	Ps.0.0807	\$ 0.0076	Ps.0.1009	\$ 0.0095
May 4, 2009 and November 3, 2009 ⁽²⁾	2008	Ps.1,620,000,000	Ps.0.0807	\$ 0.0061	Ps.0.1009	\$ 0.0076
May 4, 2009			Ps.0.0404	\$ 0.0030	Ps.0.0505	\$ 0.0038
November 3, 2009			Ps.0.0404	\$ 0.0030	Ps.0.0505	\$ 0.0038
May 4, 2010 and November 3, 2010 ⁽³⁾	2009	Ps.2,600,000,000	Ps.0.1296	\$ 0.0105	Ps.0.1621	\$ 0.0132
May 4, 2010			Ps.0.0648	\$ 0.0053	Ps.0.0810	\$ 0.0066
November 3, 2010			Ps.0.0648	\$ 0.0053	Ps.0.0810	\$ 0.0066
May 3, 2011 and November 2, 2011 ⁽⁴⁾	2010	Ps.4,600,000,000	Ps.0.2294	\$ 0.0199	Ps.0.28675	\$ 0.0249
May 3, 2011			Ps.0.1147	\$ 0.0099	Ps.0.14338	\$ 0.0124
November 2, 2011			Ps.0.1147	\$ 0.0100	Ps.0.14338	\$ 0.0125
May 3, 2012 and November 6, 2012 ⁽⁵⁾	2011	Ps.6,200,000,000	Ps.0.3092	N/a ⁽⁶⁾	Ps.0.3865	N/a
May 3, 2012			Ps.0.1546	N/a	Ps.0.1932	N/a
November 2, 2012			Ps.0.1546	N/a	Ps.0.1932	N/a

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- (1) The per series dividend amount has been adjusted for comparability purposes to reflect the 3:1 stock split effective May 25, 2007.
- (2) The dividend payment for 2008 was divided into two equal payments. The first payment was payable on May 4, 2009, with a record date of April 30, 2009, and the second payment was payable on November 3, 2009, with a record date of October 30, 2009.
- (3) The dividend payment for 2009 was divided into two equal payments. The first payment was payable on May 4, 2010, with a record date of May 3, 2010, and the second payment was payable on November 3, 2010, with a record date of November 2, 2010.
- (4) The dividend payment for 2010 was divided into two equal payments. The first payment was payable on May 3, 2011, with a record date of May 2, 2011, and the second payment was payable on November 2, 2011, with a record date of November 1, 2011.
- (5) The dividend payment for 2011 was divided into two equal payments. The first payment will become payable on May 3, 2012 with a record date of May 2, 2012, and the second payment will become payable on November 6, 2012 with a record date of November 5, 2012.
- (6) The U.S. dollar amount of the 2011 dividend payments will be based on the exchange rate at the time such payments are made.

At the annual ordinary general shareholders meeting, or AGM, 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. As of the date of this report, the legal reserve of our company is fully constituted. 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 depository, and holders and beneficial owners from time to time of our ADSs, evidenced by American Depositary Receipts, or ADRs, any dividends distributed to holders of our ADSs will be paid to the ADS depository in Mexican pesos and will be converted by the ADS depository 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.

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The following table sets forth, for the periods indicated, the high, low, average and year-end noon buying exchange rate published by the Federal Reserve Bank of New York for cable transfers of pesos per U.S. dollar. The Federal Reserve Bank of New York discontinued the publication of foreign exchange rates on December 31, 2008, and therefore, the data provided for the periods beginning January 1, 2009 are based on the rates published by the U.S. Federal Reserve Board in its H.10 Weekly Release of Foreign Exchange Rates. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

<u>Year ended December 31,</u>	<u>Exchange Rate</u>			
	<u>High</u>	<u>Low</u>	<u>Average⁽¹⁾</u>	<u>Year End</u>
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.21	13.83
2009	15.41	12.63	13.50	13.06
2010	13.19	12.16	12.64	12.38
2011	14.25	11.51	12.46	13.95

(1) Average month-end rates.

	<u>Exchange Rate</u>		
	<u>High</u>	<u>Low</u>	<u>Period End</u>
2010:			
First Quarter	Ps.13.19	Ps.12.30	Ps.12.30
Second Quarter	13.14	12.16	12.83
Third Quarter	13.17	12.49	12.63
Fourth Quarter	12.61	12.21	12.38
2011:			
First Quarter	12.25	11.92	11.92
Second Quarter	11.97	11.51	11.72
Third Quarter	13.87	11.57	13.77
Fourth Quarter	14.25	13.10	13.95
2012:			
January	13.75	12.93	13.04
February	12.95	12.63	12.79
March	12.99	12.63	12.81
First Quarter	13.75	12.63	12.81

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 from operations and financial condition.

Substantially all of Coca-Cola FEMSA's sales are derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages through standard bottler agreements in certain territories in Mexico and Latin America, which we refer to as Coca-Cola FEMSA's "territories." See "Item 4. Information on the Company—Coca-Cola FEMSA—Coca-Cola FEMSA's Territories." Through its rights under Coca-Cola FEMSA's bottler agreements and as a large shareholder, The Coca-Cola Company has the right to participate in the process for making important decisions related to Coca-Cola FEMSA's business.

The Coca-Cola Company may unilaterally set the price for its concentrate. In addition, under Coca-Cola FEMSA's bottler agreements, it is prohibited from bottling or distributing any other beverages without The Coca-Cola Company's authorization or consent, and it may not transfer control of the bottler rights of any of its territories without consent of The Coca-Cola Company.

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. Accordingly, The Coca-Cola Company may discontinue or reduce such contributions at any time.

Coca-Cola FEMSA depends on The Coca-Cola Company to renew its bottler agreements. As of December 31, 2011, Coca-Cola FEMSA had seven bottler agreements in Mexico, with each one corresponding to a different territory as follows: (i) the agreements for Mexico's Valley territory expire in June 2013 and April 2016; (ii) the agreements for the Central territory expire in May 2015 and July 2016; (iii) the agreement for the Northeast territory expires in September 2014; (iv) the agreement for the Bajío territory expires in May 2015; and (v) the agreement for the Southeast territory expires in June 2013. Coca-Cola FEMSA's bottler agreements with The Coca-Cola Company will expire for Coca-Cola FEMSA's territories in other countries as follows: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014. All of Coca-Cola FEMSA's bottler agreements are automatically renewable for ten-year terms, subject to the right of either party thereto to give prior notice that it does not wish to renew the relevant agreement. In addition, these agreements generally may be terminated in the case of material breach. 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, results from operations and prospects.

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 interests of its remaining shareholders.

The Coca-Cola Company has substantial influence on the conduct of Coca-Cola FEMSA's business. As of April 20, 2012, The Coca-Cola Company indirectly owned 29.4% 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 five of Coca-Cola FEMSA's maximum of 21 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA's board of directors. We are entitled to appoint 13 of Coca-Cola FEMSA's maximum of 21 directors and all of its executive officers. On February 1, 2010, we and The Coca-Cola Company signed a second amendment to the shareholders agreement that confirms our power to govern Coca-Cola FEMSA's operating and financial policies in order to exercise control over its operations in the ordinary course of business. The Coca-Cola Company has the power to determine the outcome of certain protective rights, such as mergers, acquisitions or the sale of any line of business, requiring approval by its board of directors, and may have the power

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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 interests of its remaining shareholders.

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

Coca-Cola FEMSA engages in several transactions with subsidiaries of The Coca-Cola Company. In addition, Coca-Cola FEMSA has entered into cooperative marketing arrangements with The Coca-Cola Company and is a party to a number of bottler agreements with The Coca-Cola Company. Coca-Cola FEMSA also has agreed to develop still beverages and waters in its territories with The Coca-Cola Company and has entered into agreements to acquire companies with The Coca-Cola Company. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions—Business Transactions between Coca-Cola FEMSA and The Coca-Cola Company."

Coca-Cola FEMSA could engage in transactions on less favorable terms with related parties, due to potential conflicts of interest, compared to terms that could be obtained with an unaffiliated third party.

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

The beverage industry in the territories in which Coca-Cola FEMSA operates 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 in different beverage categories, other than sparkling beverages, such as water, juice-based beverages, teas, sport drinks and value-added dairy products. Although competitive conditions are different in each of Coca-Cola FEMSA's territories, it competes principally in terms of price, packaging, consumer sales promotions, customer service and product innovation. See "Item 4. Information on the Company—Coca-Cola FEMSA—Competition." 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.

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 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 (or HFCS), 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 from operations.

Water shortages or any failure to maintain existing concessions could adversely affect Coca-Cola FEMSA's business.

Water is an essential component of all of Coca-Cola FEMSA's products. Coca-Cola FEMSA obtains water from various sources in its territories, including springs, wells, rivers and municipal and state water companies pursuant to either contracts to obtain water or pursuant to concessions granted by governments in its various territories.

Coca-Cola FEMSA obtains the vast majority of the water used in its production pursuant to concessions to exploit wells, which are generally granted based on studies of the existing and projected groundwater supply. Coca-Cola FEMSA's existing water concessions or contracts to obtain water may be terminated by governmental

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authorities under certain circumstances and their renewal depends on receiving necessary authorizations from local and/or federal water authorities. See “Item 4. Information on the Company—Regulatory Matters—Water Supply Law.” In some of Coca-Cola FEMSA’s other territories, the existing water supply may not be sufficient to meet Coca-Cola FEMSA’s future production needs, and the available water supply may be adversely affected by shortages or changes in governmental regulations and environmental changes.

We cannot assure you that water will be available in sufficient quantities to meet Coca-Cola FEMSA’s future production needs or will prove sufficient to meet Coca-Cola FEMSA’s water supply needs.

Increases in the prices of raw materials would increase Coca-Cola FEMSA’s cost of goods sold and may adversely affect Coca-Cola FEMSA’s results from operations.

In addition to water, Coca-Cola FEMSA’s most significant raw materials are (1) concentrate, which it acquires from affiliates of The Coca-Cola Company, (2) packaging materials and (3) sweeteners. Prices for sparkling beverages concentrate are determined by The Coca-Cola Company 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 in Brazil and Mexico. These increases were fully implemented in Brazil in 2008 and in Mexico in 2009. However, Coca-Cola FEMSA may experience further increases in its territories in the future. 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 each country in which it operates, while the prices of certain materials, including those used in the bottling of its products, mainly resin, ingots to make plastic bottles, finished plastic bottles, aluminum cans and HFCS, are paid in or determined with reference to the U.S. dollar, and therefore may increase if the U.S. dollar appreciates against the currencies of the countries in which Coca-Cola FEMSA operates, as was the case in 2008 and 2009. While the U.S. dollar did not appreciate against the currency of any of the countries in which Coca-Cola FEMSA operates in 2010 or most of 2011, we cannot assure you that an appreciation of the U.S. dollar with respect to such currencies will not occur in the future. See “Item 4. Information on the Company—Coca-Cola FEMSA—Raw Materials.”

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. The average prices that Coca-Cola FEMSA paid for resin and plastic ingots in U.S. dollars increased significantly in 2011, as compared to 2010. We cannot provide any assurance that prices will not increase further in future periods. Average sweetener prices, including of sugar and HFCS, paid by Coca-Cola FEMSA during 2011 were higher as compared to 2010 in all of the countries in which it operates. During the 2009-2011 period, international sugar prices were volatile due to various factors, including shifting demands, availability and climate issues affecting production and distribution. Sugar prices in all of the countries in which Coca-Cola FEMSA operates other than Brazil are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay in excess of international market prices for sugar. See “Item 4. Information on the Company—Coca-Cola FEMSA—Raw Materials.” We cannot assure you that Coca-Cola FEMSA’s 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 goods sold and adversely affect its financial performance.

Taxes could adversely affect Coca-Cola FEMSA’s business.

The countries in which Coca-Cola FEMSA operates may adopt new tax laws or modify existing law to increase taxes applicable to its business. For example, in Mexico, a general tax reform became effective on January 1, 2010, pursuant to which, as applicable to Coca-Cola FEMSA, there is a temporary increase in the income tax rate from 28% to 30% from 2010 through 2012. This increase will be followed by a reduction to 29% for the year 2013 and a further reduction in 2014 to return to the previous rate of 28%. In addition, the value added tax (VAT) rate increased in 2010 from 15% to 16%. This increase had an impact on Coca-Cola FEMSA’s results from operations due to the reduction in disposable income of consumers.

In Panama, there was an increase in a certain consumer tax, effective as of April 1, 2010, affecting syrups, powders and concentrate. Some of these materials are used for the production of Coca-Cola FEMSA's sparkling beverages. These taxes increased from 6% to 10%.

Coca-Cola FEMSA's products are also subject to certain taxes in many of the countries in which it operates. Certain countries in Central America, as well as Brazil and Argentina also impose taxes on sparkling beverages. See "Item 4. Information on the Company—Regulatory Matters—Taxation of Sparkling Beverages." We cannot assure you that any governmental authority in any country where Coca-Cola FEMSA operates will not impose new taxes or increase taxes on its products in the future. The imposition of new taxes or increases in taxes on Coca-Cola FEMSA's products may have a material adverse effect on Coca-Cola FEMSA's business, financial condition, prospects and results from operations.

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. Regulation can also affect Coca-Cola FEMSA's ability to set prices for its products. See "Item 4. Information of the Company—Regulatory Matters." The adoption of new laws or regulations or a stricter interpretation or enforcement thereof 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 from operations. In particular, environmental standards are continually becoming more stringent in several of the countries in which Coca-Cola FEMSA operates, and Coca-Cola FEMSA is also continually in the process of keeping up and complying with these standards, although we cannot assure you that Coca-Cola FEMSA will be able to meet the timelines for compliance established by the relevant regulatory authorities. See "Item 4. Information on the Company—Regulatory Matters—Environmental Matters." 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 from 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. Coca-Cola FEMSA is currently subject to price controls in Argentina and Venezuela. The imposition of these restrictions or voluntary price restraints in other territories may have an adverse effect on Coca-Cola FEMSA's results from operations and financial position. See "Item 4. Information of the Company—Regulatory Matters—Price Controls." We cannot assure you that governmental authorities in any country where Coca-Cola FEMSA operates will not impose statutory price controls or that Coca-Cola FEMSA will not need to implement voluntary price restraints in the future.

In January 2010, the Venezuelan government amended the *Ley para la Defensa y Acceso a las Personas a los Bienes y Servicios* (Defense of and Access to Goods and Services Law). Any violation by a company that produces, distributes and sells goods and services could lead to fines, penalties or the confiscation of the assets used to produce, distribute and sell these goods without compensation. Although we believe that Coca-Cola FEMSA is in compliance with this law, consumer protection laws in Venezuela are subject to continuing review and changes, and any such changes could lead to an adverse impact on Coca-Cola FEMSA.

In July 2011, the Venezuelan government passed the *Ley de Costos y Precios Justos* (Fair Costs and Prices Law). The purpose of this law is to establish the regulations and administrative processes necessary to maintain the price stability of, and equal access to, goods and services. The law also creates the National Ministry of Costs and Prices, whose main role is to oversee price controls and set maximum retail prices on certain consumer goods and services. Of Coca-Cola FEMSA's products, only certain of its still water beverages were affected by these regulations, which mandated Coca-Cola FEMSA to lower its sale prices as of April 2012. Any failure to comply with this law would result in fines, temporary suspension or the closure of operations. While Coca-Cola FEMSA is currently in compliance with this law, we cannot assure you that the Venezuelan government's future regulation of goods and services will not result in a forced reduction of prices in other of Coca-Cola FEMSA's products, which could have a negative effect on its results of operations.

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In January 2012, the Costa Rican government approved a decree that regulates the sale of food and beverages in schools. The decree came into effect in 2012. Enforcement of this law will be gradual, from applicability in 2012 to 2014, depending on the specific characteristics of the food or beverage in question. In accordance with the decree, the sale of specific sparkling beverages and still beverages that contain sugar, syrup or HFCS in any type of presentation in schools is prohibited. Coca-Cola FEMSA will still be allowed to sell water and certain still beverages in schools. We cannot assure you that the Costa Rican government will not further restrict sales of other of Coca-Cola FEMSA's products in schools in the future; any such further restrictions could lead to an adverse impact on Coca-Cola FEMSA's results of operations.

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. Coca-Cola FEMSA has also been subject to investigations and proceedings on environmental and labor matters. We cannot assure you that these investigations and proceedings could not have an adverse effect on Coca-Cola FEMSA's results from operations or financial condition. See "Item 8. Financial Information—Legal Proceedings."

Economic and political conditions in the countries other than Mexico in which Coca-Cola FEMSA operates may increasingly adversely affect its business.

In addition to operating in Mexico, our subsidiary Coca-Cola FEMSA conducts operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. Total revenues and income from Coca-Cola FEMSA's combined non-Mexican operations increased as a percentage of its consolidated total revenues and income from operations from 47.4% and 32.4%, respectively, in 2006, to 64.3% and 62.0%, respectively, in 2011. As a consequence, Coca-Cola FEMSA's results have been increasingly affected by the economic and political conditions in the countries, other than Mexico, where it conducts operations.

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 Coca-Cola FEMSA operates. These conditions vary by country and may not be correlated to conditions in Coca-Cola FEMSA's Mexican operations. Deterioration in economic and political conditions in any of these countries would have an adverse effect on Coca-Cola FEMSA's financial position and results from operations. In Venezuela, Coca-Cola FEMSA continues to face exchange rate risk as well as scarcity of raw materials and restrictions with respect to the importation of such materials. Venezuelan political events may also affect Coca-Cola FEMSA's operations. The political uncertainty involving Venezuela's October 2012 elections or otherwise could have a negative effect on the Venezuelan economy, which in turn could result in an adverse effect on Coca-Cola FEMSA's business. We cannot provide any assurances that political developments in Venezuela, over which we have no control, will not have an adverse effect on Coca-Cola FEMSA's business, financial condition or results from operations.

In addition, presidential elections were held in November 2011 in each of Guatemala and Nicaragua. The elections in Guatemala led to the election of a new president and political party (the *Partido Patriota* (Patriotic Party)). The elections in Nicaragua led to the reelection of José Daniel Ortega Saavedra, a member of the *Partido Frente Sandinista de Liberación Nacional* (Sandinista National Liberation Front), as president. We cannot assure you that the elected presidents in these countries will continue to apply the same policies that have been applied to Coca-Cola FEMSA in the past.

Depreciation of the local currencies of the countries in which Coca-Cola FEMSA operates against the U.S. dollar may increase its operating costs. Coca-Cola FEMSA has also operated under exchange controls in Venezuela since 2003 that limit its ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price paid for raw materials and services purchased in local currency. In January 2010, the Venezuelan government announced a devaluation of its official exchange rate and the establishment of a multiple exchange rate system, which was set at 2.60 bolivars to US\$ 1.00 for high priority categories and 4.30 bolivars to US\$ 1.00 for non-priority categories, and which recognized the existence of other exchange rates in which the Venezuelan government will intervene. In December 2010, the Venezuelan government announced its decision to implement a new singular fixed exchange rate of 4.30 bolivars to US\$ 1.00, which resulted in a devaluation of the bolivar against the U.S. dollar. Future changes in the Venezuelan exchange control regime, and future currency devaluations or the imposition of exchange controls in any of the countries in which Coca-Cola FEMSA has operations could have an adverse effect on its financial position and results from operations.

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We cannot assure you those political or social developments in any of the countries in which Coca-Cola FEMSA has operations, over which it has no control, will not have a corresponding adverse effect on the economic situation and on its business, financial condition or results from operations.

Weather conditions may adversely affect Coca-Cola FEMSA's results from operations.

Lower temperatures and higher rainfall may negatively impact consumer patterns, which may result in lower per capita consumption of Coca-Cola FEMSA's beverage offerings. Additionally, adverse weather conditions may affect road infrastructure in the territories in which Coca-Cola FEMSA operates and limit its ability to sell and distribute its products, thus affecting Coca-Cola FEMSA's results from operations. As was the case in most of Coca-Cola FEMSA's territories in 2011, adverse weather conditions affected Coca-Cola FEMSA's sales in certain regions of these territories.

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, Super City and Círculo K stores. OXXO convenience stores also face competition from numerous small chains of retailers across Mexico and from retailers that participate with store formats other than convenience stores. FEMSA Comercio may face additional competition 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 from 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 from operations.

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

FEMSA Comercio increased the number of OXXO stores at a compound annual growth rate of 14.5% from 2007 to 2011. 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 from 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. In Colombia, FEMSA Comercio may not be able to maintain similar historic growth rates to those in Mexico.

FEMSA Comercio's business may be adversely affected by an increase in the crime rate in Mexico.

In recent years, crime rates have increased, particularly in the north of Mexico, and there has been a particular increase in drug-related crime and other organized crime. Although FEMSA Comercio has stores across the majority of the Mexican territory, the north of Mexico represents an important region in FEMSA Comercio's operations. An increase in crime rates could negatively affect sales and customer traffic, increase security expenses incurred in each store, result in higher turnover of personnel or damage to the perception of the OXXO brand, each of which could have an adverse effect on FEMSA Comercio's business.

FEMSA Comercio's business may be adversely affected by changes in information technology.

FEMSA Comercio invests aggressively in information technology (which we refer to as IT) in order to maximize its value generation potential. Given the rapid speed at which FEMSA Comercio adds new services and products to its commercial offerings, the development of IT systems, hardware and software needs to keep pace with the growth of the business. If these systems became unstable or if planning for future IT investments were inadequate, it could affect FEMSA Comercio's business by reducing the flexibility of its value proposition to consumers or by increasing its operating complexity, either of which could adversely affect FEMSA Comercio's revenue-per-store trends.

Risks Related to Our Holding of Heineken N.V. and Heineken Holding N.V. Shares

FEMSA will not control Heineken N.V.'s and Heineken Holding N.V.'s decisions.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group, which we refer to as the Heineken transaction. As a consequence of the Heineken transaction, FEMSA now participates in the Heineken Holding N.V. Board of Directors, which we refer to as the Heineken Holding Board, and in the Heineken N.V. Supervisory Board, which we refer to as the Heineken Supervisory Board. However, FEMSA is not a majority or controlling shareholder of Heineken N.V. or Heineken Holding N.V., nor does it control the decisions of the Heineken Holding Board or the Heineken Supervisory Board. Therefore, the decisions made by the majority or controlling shareholders of Heineken N.V. or Heineken Holding N.V. or the Heineken Holding Board or the Heineken Supervisory Board may not be consistent with or may not consider the interests of FEMSA's shareholders or may be adverse to the interests of FEMSA's shareholders. Additionally, FEMSA has agreed not to disclose non-public information and decisions taken by Heineken.

Heineken is present in a large number of countries.

Heineken is a global distributor and brewer of beer in a large number of countries. As a consequence of the Heineken transaction, FEMSA shareholders are indirectly exposed to the political, economic and social circumstances affecting the markets in which Heineken is present, which may have an adverse effect on the value of FEMSA's interest in Heineken, and, consequently, the value of FEMSA shares.

Strengthening of the Mexican peso.

In the event of a depreciation of the euro against the Mexican peso, the fair value of FEMSA's investment in shares will be adversely affected.

Furthermore, the cash flow that is expected to be received in the form of dividends from Heineken will be in euros, and therefore, in the event of a depreciation of the euro against the Mexican peso, the amount of expected cash flow will be adversely affected.

Heineken N.V. and Heineken Holding N.V. are publicly listed companies.

Heineken N.V. and Heineken Holding N.V. are listed companies whose stock trades publicly and is subject to market fluctuation. A reduction in the price of Heineken N.V. or Heineken Holding N.V. shares would result in a reduction in the economic value of FEMSA's participation in Heineken.

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 March 23, 2012, a voting trust, of which the participants are members of seven families, owned 38.69% of our capital stock and 74.86% 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, dissolution, or liquidation, a merger with a company with a distinct corporate purpose, a merger in which we are not the surviving entity, a 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 Mexican Securities Law. As a result of these limited voting rights, Series D-B and D-L 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, or NYSE, 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 depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depository 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 depository 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. By law, we may not 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 U.S. Securities and Exchange Commission, which we refer to as 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 depository 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—Bylaws—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. As of December 31, 2011, FEMSA had no restrictions on its ability to pay dividends. Given the exchange of 100% of our FEMSA Cerveza business for a 20% economic interest in the Heineken Group, FEMSA's non-controlling shareholder position in Heineken N.V. and Heineken Holding N.V. means that it will be unable to require payment of dividends with respect to the Heineken N.V. or Heineken Holding N.V. shares.

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 from operations.

We are a Mexican corporation, and our Mexican operations are our single most important geographic territory. Given the exchange of 100% of our FEMSA Cerveza business for a 20% economic interest in the Heineken Group, FEMSA shareholders may face a lesser degree of exposure with respect to economic conditions in Mexico and a greater degree of indirect exposure to the political, economic and social circumstances affecting the markets in which Heineken is present. For the year ended December 31, 2011, 60% of our consolidated total revenues were attributable to Mexico and at the net income level the percentage attributable to our Mexican

operations is further reduced. The Mexican economy experienced a downturn as a result of the impact of the global financial crisis on many emerging economies that began in the second half of 2008 and continued through 2010. In the fourth quarter of 2011, Mexican gross domestic product, or GDP, increased by approximately 3.7% on an annualized basis compared to the same period in 2010, due to an improvement in the manufacturing and services sectors of the economy. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in 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 results from operations. Given the continuing global macroeconomic downturn in 2009 and 2010, and the slow and uncertain recovery in 2011, which also affected the Mexican economy, we cannot assure you that such conditions will not have a material adverse effect on our results from operations and financial position going forward.

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 41% of our total debt as of December 31, 2011 (including the effect of interest rate swaps), and have an adverse effect on our financial position and results from operations.

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

Depreciation of the Mexican peso relative to the U.S. dollar increases 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 negatively affects our financial position and results from operations. A severe devaluation or depreciation of the Mexican peso may 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. Although the value of the Mexican peso against the U.S. dollar had been fairly stable until mid-2008, in the fourth quarter of 2008, the Mexican peso depreciated approximately 27% compared to the fourth quarter of 2007. Since 2008, the Mexican peso has continued to experience exchange rate fluctuations relative to the U.S. dollar, as follows. During 2009 and 2010, the Mexican peso experienced a recovery relative to the U.S. dollar of approximately 5.2% and 5.6% compared to the year of 2008 and 2009, respectively. During 2011, the Mexican peso experienced a devaluation relative to the U.S. dollar of approximately 12.7% compared to 2010. In the first quarter of 2012, the Mexican peso appreciated approximately 8.2% relative to the U.S. dollar compared to the fourth quarter of 2011.

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 from operations and cash flows in future periods.

When the financial markets are volatile, as they have been in recent periods, our results from operations may be substantially affected by variations in exchange rates and commodity prices, and to a lesser degree, interest rates. These effects include foreign exchange gain and loss on assets and liabilities denominated in U.S. dollars, fair value gain and loss on derivative financial instruments, commodities prices and changes in interest income and interest expense. These effects can be much more volatile than our operating performance and our operating cash flows.

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 of the senate also occurred in July 2006, and although the *Partido Acción Nacional* (or the PAN) won a plurality of the seats in the Mexican congress in the election, no party succeeded in securing a majority. Elections of the *Cámara de Diputados* (House of Representatives) occurred in 2009, and although the *Partido Revolucionario Institucional* (or the PRI) won a plurality of seats in the House of Representatives, no party succeeded in securing a majority. The legislative gridlock resulting from the absence of a clear majority by any single party, which is expected to continue until the Mexican presidential and federal congressional elections to be held in July 2012, has impeded the progress of structural reforms in Mexico, which may adversely affect economic conditions in Mexico, and consequently, our results of operations.

The Mexican presidential election in July 2012 will result in a change in administration, as Mexican law does not allow a sitting president to run for a second consecutive term. The presidential race is expected to be highly contested among a number of different parties, including the PRI, the PAN and the *Partido de la Revolución Democrática* (the Party of the Democratic Revolution, or PRD), each with its own political platform. As a result, we cannot predict which party will win the presidential election or whether changes in Mexican governmental policy will result from a change in administration. Such changes, should they occur, may adversely affect economic conditions and/or the industries in which we operate in Mexico, and therefore our results of operations and financial position.

Insecurity in Mexico could increase, and this could adversely affect our results.

The presence and increasing levels of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Organized criminal activity and related violent incidents remained high during 2011 and the first quarter of 2012 and are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa, Michoacán and Guerrero. Mexican President Felipe Calderón has acted to fight the drug cartels and has disrupted the balance of power among them. The principal driver of organized criminal activity is the drug trade that aims to supply and profit from the uninterrupted demand for drugs and the supply of weapons from the United States. This situation could impact our business because consumer habits and patterns adjust to the increased perceived and real insecurity as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions. Insecurity could increase, and this could therefore adversely affect our operational and financial results.

Depreciation of local currencies in other Latin American countries in which we operate may adversely affect our financial position.

Total revenues increased in certain of our non-Mexican beverage operations at a higher rate relative to their respective Mexican operations in 2010. Although this was not the case in 2011, the recurrence of such a higher rate of total revenue growth could result in a greater contribution to the respective results from operations for these territories, but may also expose us to greater risk in these territories as a result. The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect our results from operations for these countries. In recent years, the value of the currency in the countries in which we operate had been relatively stable except in Venezuela. 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 from 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. The duration can be extended indefinitely by resolution of our shareholders. Our legal name is Fomento Económico Mexicano, S.A.B. de C.V., and in commercial contexts we frequently refer to ourselves as FEMSA. Our principal executive offices are located at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410, Mexico. Our telephone number at this location is (52-81) 8328-6000. Our website is www.femsa.com. We are organized as a *sociedad anónima 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 Comercio, which operates convenience stores; and
- CB Equity, which holds our investment in Heineken.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. Under Mexican FRS, we have reclassified our consolidated statements of income and cash flows for the year ended December 31, 2009 to reflect FEMSA Cerveza as a discontinued operation. However, FEMSA Cerveza is not a discontinued operation under U.S. GAAP. See “Item 5. Operating and Financial Review and Prospects—U.S. GAAP Reconciliation” and Notes 26 and 27 to our audited consolidated financial statements.

Corporate Background

FEMSA traces its origins to the establishment of Mexico’s first brewery, Cervecería Cuauhtémoc, S.A., which we refer to as Cuauhtémoc, which was founded in 1890 by four Monterrey businessmen: Francisco G. Sada, José A. Muguerza, Isaac Garza and José M. Schneider. Descendants of certain of the founders of Cuauhtémoc are participants of the voting trust that controls the management of our company.

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. (now Alfa, S.A.B. de C.V.), controlled by the Garza Sada family, and the beverage and banking operations were consolidated under the Valores Industriales, S.A. de C.V. (the corporate predecessor of FEMSA) corporate umbrella controlled by the Garza Lagüera family. FEMSA’s shares were first listed on what is now the Bolsa Mexicana de Valores, S.A.B. de C.V. (which we refer to as 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

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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 privatization 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 and currently referred to as A-B InBev), subsequently increased its interest in FEMSA Cerveza to 30%.

In 1998, we completed a reorganization that:

- changed 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 NYSE 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 Panamerican Beverages, Inc., 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%.

In August 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.

In June 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.

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In January 2006, FEMSA Cerveza, through one of its subsidiaries, acquired 68% of the equity of the Brazilian brewer Cervejarias Kaiser, which we refer to as 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 increased its stake to 99.83% of the equity of Kaiser. However, in August 2007, FEMSA Cerveza and Heineken N.V. closed a stock purchase agreement whereby Heineken N.V. purchased the shares necessary to regain its 17% interest in Kaiser. As a result of this transaction, FEMSA Cerveza obtained ownership of 83% of Kaiser and Heineken N.V. obtained ownership of 17%.

In November 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\$ 427.4 million in the aggregate, pursuant to a Memorandum of Understanding with The Coca-Cola Company. As of April 20, 2012, we indirectly owned Series A Shares of Coca-Cola FEMSA equal to 50.0% of its capital stock (63.0% of its capital stock with full voting rights) and The Coca-Cola Company indirectly owned Series D Shares of Coca-Cola FEMSA equal to 29.4% of its capital stock (37.0% of its capital stock with full voting rights). The remaining 20.6% of Coca-Cola FEMSA's capital stock consisted of Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and/or on the NYSE in the form of ADSs under the trading symbol KOF.

In March 2007, at our company's AGM, 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.

In November 2007, Administración, S.A.P.I. de C.V., or Administración, a Mexican company owned directly or indirectly by Coca-Cola FEMSA and by The Coca-Cola Company, acquired 58,350,908 shares representing 100% of the shares of the capital stock of Jugos del Valle, for US\$ 370 million in cash, with assumed liabilities of US\$ 86 million. On June 30, 2008, Administración and Jugos del Valle merged, and Jugos del Valle became the surviving entity. Subsequent to the initial acquisition of Jugos del Valle, Coca-Cola FEMSA offered to sell 30% of its interest in Administración to other Coca-Cola bottlers in Mexico. In December 2008, the surviving Jugos del Valle entity sold its operations to The Coca-Cola Company, Coca-Cola FEMSA and other bottlers of *Coca-Cola* trademark brands in Brazil. These still beverage operations were integrated into a joint business with The Coca-Cola Company in Brazil. Through Coca-Cola FEMSA's joint ventures with The Coca-Cola Company, we distribute the Jugos del Valle line of juice-based beverages and have begun to develop and distribute new products. As of December 31, 2011, 2010, 2009 and 2008, Coca-Cola FEMSA has a recorded investment of 19.8% of the capital stock of Jugos del Valle.

In April 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 no longer exist, and, absent shareholder action, our share structure will continue to be comprised of Series B Shares, which must represent not less than 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 "Item 9. The Offer and Listing—Description of Securities."

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In May 2008, Coca-Cola FEMSA completed its acquisition of Refrigerantes Minas Gerais, Ltda., or REMIL, in Brazil for US\$ 364.1 million, net of cash received, and assumed liabilities of US\$ 196.9 million.

In January 2010, FEMSA announced that its Board of Directors unanimously approved a definitive agreement under which FEMSA would exchange its FEMSA Cerveza business for a 20% economic interest in Heineken, one of the world's leading brewers. Under the terms of the agreement, FEMSA received 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 shares of Heineken N.V. (which shares we refer to as the Allotted Shares) to be delivered pursuant to an allotted share delivery instrument, or the ASDI. Heineken also assumed US\$ 2.1 billion of indebtedness, including FEMSA Cerveza's unfunded pension obligations. The Allotted Shares were delivered to FEMSA in several installments during 2010 and 2011, with the final installment delivered on October 5, 2011. As of December 31, 2011, FEMSA's interest in Heineken N.V. represented 12.53% of Heineken N.V.'s outstanding capital and 14.94% of Heineken Holding N.V.'s outstanding capital. The principal terms of the Heineken transaction documents are summarized below in "Item 10. Additional Information—Material Contracts."

In February 2010, FEMSA signed an agreement with subsidiaries of The Coca-Cola Company to amend the shareholders agreement for Coca-Cola FEMSA. The purpose of the amendment is to set forth that the appointment and compensation of the chief executive officer and all officers reporting to the chief executive officer, as well as the adoption of decisions related to the ordinary operations of Coca-Cola FEMSA, shall only require a simple majority vote of the board of directors. Decisions related to extraordinary matters (such as business acquisitions or combinations in an amount exceeding US\$ 100 million, among others) shall continue to require the vote of the majority of the board of directors, including the affirmative vote of two of the board members appointed by The Coca-Cola Company. The amendment was approved at Coca-Cola FEMSA's extraordinary shareholders meeting on April 14, 2010, and is reflected in the bylaws of Coca-Cola FEMSA. This amendment was signed without transfer of any consideration. The percentage of our voting interest in our subsidiary Coca-Cola FEMSA remains the same after the signing of this amendment.

In April 2010, Heineken N.V. and Heineken Holding N.V. held their AGM, and approved the acquisition of 100% of the shares of the beer operations owned by FEMSA, under the terms announced in January 2010. The AGM of Heineken appointed, subject to the completion of the acquisition of FEMSA's beer operations, Mr. Jose Antonio Fernández Carbajal as member of the Board of Directors of Heineken Holding N.V. and the Heineken Supervisory Board, and Mr. Javier Astaburuaga Sanjines as second representative in the Heineken Supervisory Board. Their appointments became effective on April 30, 2010.

In April 2010, FEMSA held its AGM, during which shareholders approved the transaction with Heineken. Shareholders approved the exchange of 100% of FEMSA's beer operations in Mexico and Brazil for a 20% economic interest in the Heineken Group, and the assumption by Heineken of debt in the amount of US\$2.1 billion, under the transaction terms described in January 2010.

In April 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in "Item 10. Additional Information—Material Contracts."

In September 2010, FEMSA sold Promotora de Marcas Nacionales, S. de R.L. de C.V., which we refer to as Promotora, to The Coca-Cola Company. Promotora was the owner of the *Mundet* brands of soft drinks in Mexico.

In September 2010, FEMSA signed definitive agreements with GPC III, B.V. to sell its flexible packaging and label operations, Grafo Regia, S.A. de C.V. This transaction was part of FEMSA's strategy to divest non-core assets. The transaction was closed on December 31, 2010.

During the third quarter of 2010, Coca-Cola FEMSA completed a transaction with a Brazilian subsidiary of The Coca-Cola Company to produce, sell and distribute *Matte Leão* branded products. This transaction reinforced Coca-Cola FEMSA's non-carbonated product offering through the platform that is operated by The Coca-Cola Company and its bottling partners in Brazil. As a part of the agreement, Coca-Cola FEMSA has been selling and distributing certain *Matte Leão* branded ready-to-drink products since the first quarter of 2010. As of April 20, 2012, Coca-Cola FEMSA had a 19.4% indirect interest in the *Matte Leão* business in Brazil.

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In March 2011, a consortium of investors formed by FEMSA, the Macquarie Mexican Infrastructure Fund and other investors, acquired Energía Alterna Istmeña, S. de R.L. de C.V., which we refer to as EAI, and Energía Eólica Mareña, S.A. de C.V., which we refer to as EEM, from subsidiaries of Preneal, S.A., which we refer to as Preneal. EAI and EEM together constitute the Mareña Renovables Wind Power Farm, a 396 megawatt late-stage wind energy project in the southeastern region of the State of Oaxaca. The Mareña Renovables Wind Power Farm is expected to be the largest wind power farm in Latin America.

In March 2011, Coca-Cola FEMSA, with The Coca-Cola Company and through Compañía Panameña de Bebidas S.A.P.I. de C.V., acquired Grupo Industrias Lácteas, which we refer to as Estrella Azul, a Panamanian company engaged for more than 50 years in the dairy and juice-based beverage categories. Coca-Cola FEMSA acquired a 50% interest and will continue to develop this business with The Coca-Cola Company. Beginning in April 2011, both The Coca-Cola Company and Coca-Cola FEMSA commenced the gradual integration of Estrella Azul into the existing beverage platform they share for the development of non-carbonated products in Panama.

In October 2011, Coca-Cola FEMSA merged with Administradora de Acciones del Noreste, S.A. de C.V., which constituted the beverage division of Grupo Tampico, S.A. de C.V. (which we refer to as Grupo Tampico) and was one of the largest family-owned *Coca-Cola* product bottlers in Mexico, as calculated by sales volume. This franchise territory operates in the states of Tamaulipas, San Luis Potosí and Veracruz, as well as in certain parts of the states of Hidalgo, Puebla and Querétaro, and sold 155.7 million unit cases of beverages in 2011. The aggregate enterprise value at the announcement date of this transaction was Ps. 9,300 million. Grupo Tampico's principal shareholders received 63.5 million newly issued Coca-Cola FEMSA Series L Shares. Coca-Cola FEMSA began to consolidate the beverage division of Grupo Tampico in its financial statements as of October 2011.

In December 2011, Coca-Cola FEMSA began the construction of a production plant in Minas Gerais, Brazil, which will require an investment of 250 million Brazilian reais (equivalent to approximately US\$ 140 million). We expect that the construction will generate 800 direct and indirect jobs. As of December 31, 2011, it was anticipated that the new plant would be completed within 18 months and begin operations in June 2013. The plant will be located on a parcel of land 300,000 square meters in size, and it is expected that by 2015 the annual production capacity will be approximately 2.1 billion liters of sparkling beverages, representing an increase of approximately 47% as compared to the current installed capacity of Coca-Cola FEMSA's plant in Belo Horizonte, Brazil. The new plant will produce all of Coca-Cola FEMSA's existing brands and presentations of *Coca-Cola* products.

In December 2011, Coca-Cola FEMSA merged with the beverage division of Corporación de los Ángeles, S.A. de C.V. (which we refer to as Grupo CIMSA), which division was a Mexican family-owned bottler of *Coca-Cola* trademark products. This franchise territory operates mainly in the states of Morelos and Mexico, as well as in certain parts of the states of Guerrero and Michoacán, and sold 154.8 million unit cases of beverages in 2011. The aggregate enterprise value at the announcement date of this transaction was Ps. 11,000 million. A total of 75.4 million new Coca-Cola FEMSA Series L Shares were issued in connection with the transaction, and Coca-Cola FEMSA began to consolidate the beverage division of Grupo CIMSA in its financial statements as of December 2011. As part of its merger with the beverage division of Grupo CIMSA, Coca-Cola FEMSA acquired a 13.2% equity interest in Promotora Industrial Azucarera, S.A. de C.V., which we refer to as Piasa.

On December 15, 2011, Coca-Cola FEMSA entered into an agreement to merge the beverage division of Grupo Fomento Queretano, S.A.P.I. de C.V. (which we refer to Grupo Fomento Queretano) into Coca-Cola FEMSA. Grupo Fomento Queretano's beverage division operates mainly in the Mexican state of Querétaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The merger agreement was approved by both Coca-Cola FEMSA's and Grupo Fomento Queretano's boards of directors, and is subject to the approval of the *Comisión Federal de Competencia* (the Mexican Antitrust Commission, or the CFC) and of the shareholders meetings of both companies. The transaction will involve the issuance of approximately 45.1 million new Coca-Cola FEMSA Series L Shares, and in addition Coca-Cola FEMSA will assume Ps. 1,221 million in net debt. This transaction is expected to be completed in the second quarter of 2012.

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In February 2012, Coca-Cola FEMSA announced that it had entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition by Coca-Cola FEMSA of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. Both parties believe that Coca-Cola FEMSA's expertise and successful track record operating in fragmented markets and emerging economies could be effectively deployed in such territory, and contribute significantly toward expanding the penetration of, and consumer preference for, The Coca-Cola Company's brands in that market. This exclusivity agreement does not require either party to enter into any transaction, and there can be no assurances that a definitive agreement will be executed.

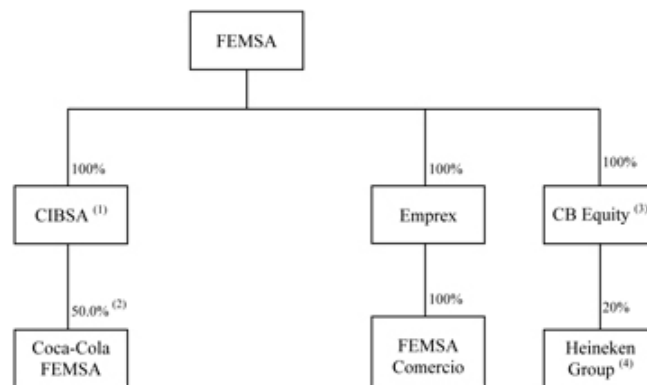
On February 23, 2012, a wholly-owned subsidiary of Mitsubishi Corporation, and Stichting Depository PGGM Infrastructure Funds, a pension fund managed by PGGM, acquired the 45% interest held by FEMSA in the parent companies of the Mareña Renovables Wind Power Farm. Certain subsidiaries of FEMSA, FEMSA Comercio and Coca-Cola FEMSA have entered into 20-year wind power supply agreements with the Mareña Renovables Wind Power Farm to purchase energy output produced by it. These agreements will remain in full force and effect. The sale of FEMSA's participation as an investor will result in a gain.

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 March 31, 2012



- (1) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.
- (2) Percentage of capital stock, equal to 63.0% of capital stock with full voting rights.
- (3) Ownership in CB Equity held through various FEMSA subsidiaries.
- (4) Combined economic interest in Heineken N.V. and Heineken Holding N.V.

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The following table presents an overview of our operations by reportable segment and by geographic region:

Operations by Segment—Overview
Year Ended December 31, 2011 and % of growth vs. last year⁽¹⁾

	Coca-Cola FEMSA		FEMSA Comercio		CB Equity ⁽²⁾	
	(in millions of Mexican pesos, except for employees and percentages)					
Total revenues	Ps.124,715	20.5%	Ps.74,112	19.0%	Ps. —	— %
Income from operations	20,152	18.0%	6,276	20.7%	(7)	(133)%
Total assets	151,608	32.9%	26,998	14.0%	76,791	14.6%
Employees	78,979	15.4%	83,820	14.7%	—	N/a

Total Revenues Summary by Segment⁽¹⁾

	Year Ended December 31,		
	2011	2010	2009
(in millions of Mexican pesos)			
Coca-Cola FEMSA	Ps.124,715	Ps.103,456	Ps.102,767
FEMSA Comercio	74,112	62,259	53,549
CB Equity ⁽²⁾	—	—	N/a
Other	13,373	12,010	10,991
Consolidated total revenues ⁽³⁾	Ps.203,044	Ps.169,702	Ps.160,251

Total Revenues Summary by Geographic Region⁽⁴⁾⁽⁵⁾

	Year Ended December 31,		
	2011	2010	2009
Mexico and Central America ⁽³⁾⁽⁶⁾	Ps.130,256	Ps.111,769	Ps.101,023
South America ⁽³⁾⁽⁷⁾	53,113	44,468	37,507
Venezuela	20,173	14,048	22,448
Consolidated total revenues ⁽³⁾	Ps.203,044	Ps.169,702	Ps.160,251

- (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) CB Equity holds Heineken N.V. and Heineken Holding N.V. shares.
- (3) For 2009, consolidated total revenues have been modified to exclude FEMSA Cerveza financial information due to its presentation as a discontinued operation.
- (4) In 2011, Coca-Cola FEMSA changed its business structure and organization. As a result, revenues by geographic region have been regrouped into the following two regions: Mexico and Central America; and South America. See Note 25 to our audited consolidated financial statements.
- (5) 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.
- (6) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico-only) revenues were Ps. 122,690 million, Ps. 105,448 million and Ps. 94,819 million for the years ended December 31, 2011, 2010 and 2009, respectively.
- (7) Includes Colombia, Brazil and Argentina. South America revenues include Brazilian revenues of Ps. 31,405 million, Ps. 27,070 million and Ps. 21,465 million, and Colombian revenues of Ps. 12,320 million, Ps. 11,057 million and Ps. 9,904 million, each for the years ended December 31, 2011, 2010 and 2009, respectively.

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Significant Subsidiaries

The following table sets forth our significant subsidiaries as of February 29, 2012:

<u>Name of Company</u>	<u>Jurisdiction of Establishment</u>	<u>Percentage Owned</u>
CIBSA	Mexico	100.0%
Coca-Cola FEMSA⁽¹⁾	Mexico	50.0%
Propimex, S. de R.L. de C.V. (a limited liability company; formerly Propimex, S.A. de C.V.)	Mexico	50.0%
Controladora Interamericana de Bebidas, S.A. de C.V.	Mexico	50.0%
Coca-Cola FEMSA de Venezuela, S.A. (formerly Panamco Venezuela, S.A. de C.V.)	Venezuela	50.0%
Spal Industria Brasileira de Bebidas, S.A.	Brazil	48.9%
FEMSA Comercio	Mexico	100.0%
CB Equity	United Kingdom	100.0%

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

Business Strategy

FEMSA is a leading company that participates in the non-alcoholic beverage industry through Coca-Cola FEMSA, the largest independent bottler of *Coca-Cola* products in the world in terms of sales volume; in the retail industry through FEMSA Comercio, operating the largest and fastest-growing chain of convenience stores in Latin America; and in the beer industry, through its ownership of the second-largest equity stake in Heineken, one of the world's leading brewers, with operations in over 70 countries.

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 and the optimal value proposition. We strive to achieve this by developing brand value, expanding our significant distribution capabilities, and improving the efficiency of our operations while aiming to reach our full potential. 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 in May 2003. The continental platform that this combination produced—encompassing a significant territorial expanse in Mexico and Central America, including some of the most populous metropolitan areas in Latin America—has provided us with opportunities to create value through both an improved ability to execute our strategies and the use of superior marketing tools. We have also increased our capabilities to operate and succeed in other geographic regions, by developing significant management and marketing tools to gain an understanding of local consumer needs and trends, as is the case with OXXO's new Colombian operations. Going forward, we intend to use those capabilities to continue our international expansion of both Coca-Cola FEMSA and OXXO.

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

Coca-Cola FEMSA

Overview

Coca-Cola FEMSA is the largest franchise bottler of *Coca-Cola* trademark beverages in the world. Coca-Cola FEMSA operates in the following territories:

- Mexico – a substantial portion of central Mexico (including Mexico City and the states of Michoacán and Guanajuato) and the southeast and northeast of 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.
- Brazil – the area of greater São Paulo, Campinas, Santos, the state of Mato Grosso do Sul, part of the state of Minas Gerais and part of the state of Goiás.
- Argentina – Buenos Aires and surrounding areas.

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, as required by amendments to the Mexican Securities Law, Coca-Cola FEMSA became a *sociedad anónima bursátil de capital variable* (a listed variable capital stock corporation). Coca-Cola FEMSA's legal name is Coca-Cola FEMSA, S.A.B. de C.V. Coca-Cola FEMSA's principal executive offices are located at Guillermo González Camarena No. 600, Col. Centro de Ciudad Santa Fe, 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 reporting segment in 2011.

Operations by Reporting Segment—Overview Year Ended December 31, 2011⁽¹⁾

	Total Revenues	Percentage of Total Revenues	Income from Operations	Percentage of Income from Operations
Mexico and Central America ⁽²⁾	52,196	41.9%	8,906	44.2%
South America (excluding Venezuela) ⁽³⁾	52,408	42.0%	7,943	39.4%
Venezuela	20,111	16.1%	3,303	16.4%
Consolidated	124,715	100.0%	20,152	100.0%

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

(2) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama. Includes results of the beverage division of Grupo Tampico from October 2011 and of the beverage division of Grupo CIMSA from December 2011.

(3) Includes Colombia, Brazil and Argentina.

Corporate History

In 1979, one of our subsidiaries acquired certain sparkling beverage bottlers that are now a part of Coca-Cola FEMSA. At that time, the acquired bottlers had 13 Mexican distribution centers operating 701 distribution routes, and their production capacity was 83 million physical cases. In 1991, FEMSA transferred its ownership in the bottlers to FEMSA Refrescos, S.A. de C.V., the corporate predecessor of 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's capital stock in the form of Series D Shares for US\$ 195 million. In September 1993, FEMSA sold Series L Shares that

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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 NYSE. In a series of transactions between 1994 and 1997, Coca-Cola FEMSA acquired territories in Argentina and additional territories in southern Mexico.

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 Coca-Cola FEMSA increased from 30.0% 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 we and The Coca-Cola Company subscribed in connection with the Panamco acquisition. In March 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 issued Series L Shares at the time) that were not subscribed for in the rights offering which were available for subscription at a price of no less than US\$ 2.216 per share or its equivalent in Mexican currency.

In November 2006, we acquired, through a subsidiary, 148,000,000 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 of Coca-Cola FEMSA, 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's capital stock. Pursuant to Coca-Cola FEMSA's bylaws, the acquired shares were converted from Series D Shares to Series A Shares.

In November 2007, Administración, S.A.P.I., 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 "—The Company—Background." The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. Subsequently, Coca-Cola FEMSA and The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle, through transactions completed during 2008. Taking into account the participations held by the beverage divisions of Grupo Tampico and Grupo CIMSA, Coca-Cola FEMSA currently holds an interest of 24.0% in the Mexican joint business and approximately 19.7% in the Brazilian joint businesses of Jugos del Valle. Jugos del Valle sells fruit juice-based beverages and fruit derivatives.

In May 2008, Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire its wholly-owned bottling franchise REMIL, located in the State of Minas Gerais in Brazil, and Coca-Cola FEMSA paid a purchase price of US\$ 364.1 million in June 2008. Coca-Cola FEMSA began to consolidate REMIL in its financial statements as of June 1, 2008.

In December 2007 and May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to Coca-Cola FEMSA by The Coca-Cola Company pursuant to Coca-Cola FEMSA's bottler agreements. The December 2007 transaction was valued at US\$ 48 million and the May 2008 transaction was valued at US\$ 16 million. Coca-Cola FEMSA believes that both of these transactions were conducted on an arm's length basis. Revenues from the sale of proprietary brands in which Coca-Cola FEMSA has a significant continuing involvement are deferred and amortized against the related costs of future sales over the estimated sales period.

In July 2008, Coca-Cola FEMSA acquired the jug water business of Agua de los Ángeles, S.A. de C.V., or Agua de los Ángeles, in the Valley of Mexico (Mexico City and surrounding areas) from Grupo Embotellador CIMSA, S.A. de C.V., at the time one of the *Coca-Cola* bottling franchises in Mexico, for a purchase price of US\$ 18.3 million. The trademarks remain with The Coca-Cola Company. Coca-Cola FEMSA subsequently merged Agua de los Ángeles into its jug water business under the *Ciel* brand.

In February 2009, Coca-Cola FEMSA, together with The Coca-Cola Company, acquired the Brisa bottled water business in Colombia from Bavaria, a subsidiary of SABMiller. Coca-Cola FEMSA acquired the production

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assets and the distribution territory, and The Coca-Cola Company acquired the *Brisa* brand. Coca-Cola FEMSA and The Coca-Cola Company equally shared in paying the purchase price of US\$ 92 million. Following a transition period, in June 2009, Coca-Cola FEMSA started to sell and distribute the *Brisa* portfolio of products in Colombia.

In May 2009, Coca-Cola FEMSA entered into an agreement to develop the *Crystal* trademark water products in Brazil jointly with The Coca-Cola Company.

In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company, along with other Brazilian *Coca-Cola* bottlers, the business operations of the *Matte Leão* tea brand. As of April 20, 2012, Coca-Cola FEMSA had a 19.4% indirect interest in the *Matte Leão* business in Brazil.

In March 2011, Coca-Cola FEMSA, with The Coca-Cola Company and through Compañía Panameña de Bebidas S.A.P.I. de C.V., acquired Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. Coca-Cola FEMSA will continue to develop this business with The Coca-Cola Company.

In October 2011, Coca-Cola FEMSA merged with the beverage division of Administradora de Acciones del Noreste, S.A. de C.V., which constituted Grupo Tampico's beverage division and was one of the largest family-owned bottlers of *Coca-Cola* trademark products in Mexico, as calculated by sales volume. This franchise territory operates in the states of Tamaulipas, San Luis Potosí and Veracruz, as well as in certain parts of the states of Hidalgo, Puebla and Querétaro, and sold 155.7 million unit cases of beverages in 2011. The aggregate enterprise value at the announcement date of this transaction was Ps. 9,300 million, and a total of 63.5 million new Coca-Cola FEMSA Series L Shares were issued in connection with the transaction. Coca-Cola FEMSA began to consolidate the beverage division of Grupo Tampico in its financial statements as of October 2011.

In December 2011, Coca-Cola FEMSA merged with the beverage division of Grupo CIMSA, a Mexican family-owned bottler of *Coca-Cola* trademark products with operations mainly in the states of Morelos and México, as well as in certain parts of the states of Guerrero and Michoacán. This franchise territory sold 154.8 million unit cases of beverages in 2011. The aggregate enterprise value of this transaction was Ps. 11,000 million, and a total of 75.4 million new Coca-Cola FEMSA Series L Shares were issued in connection with this transaction. Coca-Cola FEMSA began to consolidate the beverage division of Grupo CIMSA in its financial statements as of December 2011. As part of Coca-Cola FEMSA's merger with the beverage division of Grupo CIMSA, it also acquired a 13.2% equity interest in Piasa.

Recent Mergers and Acquisitions

On December 15, 2011, Coca-Cola FEMSA entered into an agreement to merge the beverage division of Grupo Fomento Queretano into Coca-Cola FEMSA. Grupo Fomento Queretano's beverage division operates mainly in the Mexican state of Querétaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The merger agreement was approved by both Coca-Cola FEMSA's and Grupo Fomento Queretano's boards of directors, and is subject to the approval of the CFC and of the shareholders meetings of both companies. The transaction will involve the issuance of approximately 45.1 million new Coca-Cola FEMSA Series L Shares, and in addition Coca-Cola FEMSA will assume Ps. 1,221 million in net debt. This transaction is expected to be completed in the second quarter of 2012.

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In February 2012, Coca-Cola FEMSA entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition by Coca-Cola FEMSA of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. Coca-Cola FEMSA remains in the process of evaluating this potential acquisition.

Capital Stock

As of April 20, 2012, we indirectly owned Series A Shares of Coca-Cola FEMSA equal to 50.0% of its capital stock (63.0% of its capital stock with full voting rights). As of April 20, 2012, The Coca-Cola Company indirectly owned Series D Shares of Coca-Cola FEMSA equal to 29.4% of its capital stock (37.0% of its capital stock with full voting rights). Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and/or in the form of ADSs on the NYSE, constituted the remaining 20.6% of Coca-Cola FEMSA's capital stock.



Business Strategy

In August 2011, Coca-Cola FEMSA restructured its business under two new divisions: Mexico and Central America; and South America, creating a more flexible structure to execute its strategies and extend Coca-Cola FEMSA's track record of growth. Previously, Coca-Cola FEMSA managed its business under three divisions: Mexico; Latincentro; and Mercosur. With this new business structure, Coca-Cola FEMSA aligned its business strategies more efficiently, ensuring a faster introduction of new products and categories, and a more rapid and effective design and deployment of commercial models.

Coca-Cola FEMSA operates with a large geographic footprint in Latin America in two divisions:

- Mexico and Central America (covering certain territories in Mexico, Guatemala, Nicaragua, Costa Rica and Panama); and
- South America (covering certain territories in Colombia, Brazil, Venezuela and Argentina).

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One of Coca-Cola FEMSA's goals is to maximize growth and profitability to create value for its shareholders. Its efforts to achieve this goal are based on: (1) transforming Coca-Cola FEMSA's commercial models to focus on its customers' value potential and using a value-based segmentation approach to capture the industry's value potential; (2) implementing multi-segmentation strategies in its major markets to target distinct market clusters divided by consumption occasion, competitive intensity and socioeconomic levels; (3) implementing well-planned product, packaging and pricing strategies through different distribution channels; (4) driving product innovation along its different product categories; (5) developing new businesses and distribution channels; and (6) achieving the full operating potential of its commercial models and processes to drive operational efficiencies throughout its company. To achieve these goals, Coca-Cola FEMSA intends to continue to focus its efforts on, among other initiatives, the following:

- working with The Coca-Cola Company to develop a business model to continue exploring and participating in new lines of beverages, extending existing product lines and effectively advertising and marketing its products;
- developing and expanding its still beverage portfolio through innovation, strategic acquisitions and by entering into agreements to acquire companies with The Coca-Cola Company;
- expanding its bottled water strategy, with The Coca-Cola Company, through innovation and selective acquisitions to maximize profitability across its market territories;
- 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;
- implementing selective packaging strategies designed to increase consumer demand for its products and to build a strong returnable base for the *Coca-Cola* brand;
- replicating its best practices throughout the 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;
- committing to building a multi-cultural collaborative team, from top to bottom; and
- broadening its geographic footprint through organic growth and strategic joint ventures, mergers and acquisitions.

Coca-Cola FEMSA seeks to increase per capita consumption of its products 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 distribution channels. Coca-Cola FEMSA continues to develop its product portfolio to better meet market demand and maintain its overall profitability. To stimulate and respond to consumer demand, Coca-Cola FEMSA continues to introduce new categories, products and presentations. See “—Product and Packaging Mix.” In addition, because Coca-Cola FEMSA views its relationship with The Coca-Cola Company as integral to its business, Coca-Cola FEMSA uses market information systems and strategies developed with The Coca-Cola Company to improve its business and marketing strategies.

Coca-Cola FEMSA also continuously 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 its products.

Coca-Cola FEMSA focuses on management quality as a key element of its growth strategy, and remains committed to fostering the development of quality management at all levels. Both we and The Coca-Cola Company provide Coca-Cola FEMSA with managerial experience. To build upon these skills, Coca-Cola FEMSA also offers management training programs designed to enhance its executives' abilities and to provide a forum for exchanging experiences, know-how and talent among an increasing number of multinational executives from its new and existing territories.

Sustainable development is an integral part of Coca-Cola FEMSA's strategic framework for business growth. Coca-Cola FEMSA bases its efforts on five core areas: (i) Ethics and Corporate Values, which defines its commitment to acting, defining and organizing itself based on its corporate values and culture; (ii) Quality of Life in the Company, which encourages the integral development of its employees and their families; (iii) Health and Wellness, to promote an attitude of health, self-care, nutrition and physical activity, both within and outside the company; (iv) Community Engagement, to develop education and learning projects that improve the quality of life

in the communities where Coca-Cola FEMSA operates; and (v) Environmental Care, to establish guidelines that result in actions to minimize the impact that Coca-Cola FEMSA's operations might have on the environment and create a broader awareness of caring for the environment.

Coca-Cola FEMSA's Territories

The following map shows Coca-Cola FEMSA's territories, giving estimates in each case of the population to which it offers products, the number of retailers of its beverages and the per capita consumption of its beverages as of December 31, 2011:



Per capita consumption data for a territory are determined by dividing total beverage sales volume within the territory (in bottles, cans and fountain containers) by the estimated population within such territory, and are 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 and to determine product potential, Coca-Cola FEMSA and The Coca-Cola Company measure, among other factors, the per capita consumption of all of Coca-Cola FEMSA's beverages.

[Table of Contents](#)**Coca-Cola FEMSA's Products**

Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages. These *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages), waters and still beverages (including juice drinks, coffee, teas and isotonic). The following table sets forth Coca-Cola FEMSA's main brands as of December 31, 2011:

	<u>Mexico and Central America⁽¹⁾</u>	<u>South America⁽²⁾</u>	<u>Venezuela</u>
<u>Colas:</u>			
<i>Coca-Cola</i>	ü	ü	ü
<i>Coca-Cola Light</i>	ü	ü	ü
<i>Coca-Cola Zero</i>	ü	ü	
	<u>Mexico and Central America⁽¹⁾</u>	<u>South America⁽²⁾</u>	<u>Venezuela</u>
<u>Flavored sparkling beverages:</u>			
<i>Chinotto</i>			ü
<i>Crush</i>		ü	
<i>Fanta</i>	ü	ü	
<i>Fresca</i>	ü		
<i>Frescolita</i>	ü		ü
<i>Hit</i>			ü
<i>Kist</i>	ü		
<i>Kuat</i>		ü	
<i>Lift</i>	ü		
<i>Mundet</i>	ü		
<i>Quatro</i>		ü	
<i>Simba</i>		ü	
<i>Sprite</i>	ü	ü	
<i>Schweppes</i>	ü	ü	ü
	<u>Mexico and Central America⁽¹⁾</u>	<u>South America⁽²⁾</u>	<u>Venezuela</u>
<u>Water:</u>			
<i>Alpina</i>	ü		
<i>Aquarius⁽³⁾</i>		ü	
<i>Brisa</i>		ü	
<i>Ciel</i>	ü		
<i>Crystal</i>		ü	
<i>Manantial</i>		ü	
<i>Nevada</i>			ü

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	Mexico and Central America ⁽¹⁾	South America ⁽²⁾	Venezuela
Other Categories:			
<i>Cepita</i>		ü	
<i>Hi-C</i> ⁽⁴⁾	ü	ü	
<i>Jugos del Valle</i> ⁽⁵⁾	ü	ü	ü
<i>Nestea</i> ⁽⁶⁾	ü		ü
<i>Powerade</i> ⁽⁷⁾	ü	ü	ü
<i>Matte Leao</i> ⁽⁸⁾		ü	
<i>Valle Frut</i> ⁽⁹⁾	ü	ü	ü
<i>Estrella Azul</i> ⁽¹⁰⁾	ü		
<i>Hugo</i> ⁽¹¹⁾		ü	
<i>Del Prado</i> ⁽¹²⁾	ü		

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.

(2) Includes Colombia, Brazil and Argentina.

(3) Flavored water. In Brazil, also flavored sparkling beverage.

(4) Juice-based beverage. Includes Hi-C Orangeade in Argentina.

(5) Juice based beverage.

(6) Nestea will no longer be a product licensed by The Coca-Cola Company in Coca-Cola FEMSA's territories as of May 2012 and will be replaced with Fuze Tea.

(7) Isotonic.

(8) Ready to drink tea.

(9) Orangeade. Includes *Fresh* in Costa Rica, Nicaragua, Panama, Colombia and Venezuela.

(10) Milk and value-added dairy and juices.

(11) Milk and juice blend.

(12) Juice-based beverages.

Sales Overview

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

	Sales Volume		
	Year Ended December 31,		
	2011	2010	2009
	(millions of unit cases)		
Mexico and Central America			
Mexico ⁽¹⁾	1,366.5	1,242.3	1,227.2
Central America ⁽²⁾	144.3	137.0	135.8
South America (excluding Venezuela)			
Colombia ⁽³⁾	252.1	244.3	232.2
Brazil ⁽⁴⁾	485.3	475.6	424.1
Argentina	210.7	189.3	184.1
Venezuela	189.8	211.0	225.2
Combined Volume	2,648.7	2,499.5	2,428.6

(1) Includes results of the beverage division of Grupo Tampico from October 2011 and of the beverage division of Grupo CIMSA from December 2011.

(2) Includes Guatemala, Nicaragua, Costa Rica and Panama.

(3) As of June 2009, includes sales from the Brisa bottled water business.

(4) Excludes beer sales volume. As of the first quarter of 2010, Coca-Cola FEMSA began to distribute certain ready-to-drink products under the *Matte Leão* brand.

Product and Packaging Mix

Out of the more than 120 brands and line extensions of beverages that Coca-Cola FEMSA sells and distributes, its most important brand, *Coca-Cola*, together with the line extensions thereof, *Coca-Cola Light* and *Coca-Cola Zero*, accounted for 61.6% of total sales volume in 2011. Coca-Cola FEMSA's next largest brands, *Ciel* (a water brand from Mexico), *Fanta* (and its line extensions), *Sprite* (and its line extensions) and *ValleFrut* (and its line extensions), accounted for 10.4%, 5.1%, 2.7% and 2.2%, respectively, of total sales volume in 2011. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors in which Coca-Cola FEMSA 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 mainly made of polyethylene terephthalate, which we refer to as PET.

Coca-Cola FEMSA uses the term presentation to refer to the packaging unit in which it sells its products. Presentation sizes for Coca-Cola FEMSA's *Coca-Cola* trademark beverages range from a 6.5-ounce personal size to a 3-liter multiple serving size. For all of Coca-Cola FEMSA's products excluding water, it considers a multiple serving size to be equal to, or larger than, 1.0 liters. In general, personal sizes have a higher price per unit case as compared to multiple serving sizes. Coca-Cola FEMSA offers both returnable and non-returnable presentations, which allow it to offer portfolio alternatives based on convenience and affordability to implement revenue management strategies and to target specific distribution channels and population segments in its territories. In addition, Coca-Cola FEMSA sells some *Coca-Cola* trademark beverage syrups in containers designed for soda fountain use, which it refers to as fountain. Coca-Cola FEMSA also sells bottled water products in bulk sizes, which term refers to presentations equal to or larger than 5 liters, which have a much lower average price per unit case than Coca-Cola FEMSA's other beverage products.

The characteristics of Coca-Cola FEMSA's territories are very diverse. Central Mexico and Coca-Cola FEMSA's territories in Argentina are densely populated and have a large number of competing beverage brands as compared to the rest of its territories. Coca-Cola FEMSA's territories in Brazil are densely populated but have lower per capita consumption of 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 consumption of beverages. In Venezuela, Coca-Cola FEMSA faces operational disruptions from time to time, which may have an effect on its volumes sold, and consequently, may result in lower per capita consumption.

The following discussion analyzes Coca-Cola FEMSA's product and packaging mix by reporting segment. The volume data presented are for the years 2011, 2010, and 2009.

Mexico and Central America. Coca-Cola FEMSA's product portfolio consists of *Coca-Cola* trademark beverages. In 2008, as part of its efforts to strengthen its multi-category beverage portfolio, Coca-Cola FEMSA incorporated the *Jugos del Valle* line of juice-based beverages in Mexico, and subsequently in Central America. Per capita consumption of Coca-Cola FEMSA's beverage products in Mexico and Central America was 632 and 179 eight-ounce servings, respectively, in 2011.

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

	Year Ended December 31,		
	2011	2010	2009
(millions of unit cases)			
Total Sales Volume⁽¹⁾			
Total	1,510.8	1,379.3	1,363.0
% Growth	9.5%	1.2%	6.3%
(in percentages)			
Unit Case Volume Mix by Category⁽¹⁾			
Sparkling beverages	74.9%	75.2%	74.7%
Water ⁽²⁾	19.7	19.4	20.2
Still beverages	5.4	5.4	5.1
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Includes results from the operations of the beverage division of Grupo Tampico from October 2011 and from the beverage division of Grupo CIMSA from December 2011.

(2) Includes bulk water volumes.

In 2011, multiple serving presentations represented 67.6% of total sparkling beverages sales volume in Mexico, remaining flat as compared to 2010, and 55.7% of total sparkling beverages sales volume in Central America, a 60 basis points decrease as compared to 2010. Coca-Cola FEMSA's strategy is to foster consumption in single serving presentations while maintaining multiple serving volumes. In 2011, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 31.7% in Mexico, a 130 basis points increase as compared to 2010, and 31.7% in Central America, a 150 basis points decrease as compared to 2010.

In 2011, Coca-Cola FEMSA's sparkling beverages decreased as a percentage of its total sales volume, from 75.2% in 2010 to 74.9% in 2011, mainly due to the integration of the beverage divisions of Grupo Tampico and Grupo CIMSA in Mexico, which have a higher mix of water in their portfolios.

In 2011, Coca-Cola FEMSA's most popular sparkling beverage presentations in Mexico were the 2.5-liter returnable plastic bottle, the 3.0-liter non-returnable plastic bottle and the 0.6-liter non-returnable plastic bottle (the 20-ounce bottle that is also popular in the United States), which together accounted for 56.8% of total sparkling beverage sales volume in Mexico.

Total sales volume reached 1,510.8 million unit cases in 2011, an increase of 9.5% as compared to 1,379.3 million unit cases in 2010. The integration of the beverage divisions of Grupo Tampico and Grupo CIMSA in Mexico contributed 48.9 million unit cases in 2011, of which 63.0% were sparkling beverages, 5.2% bottled water, 27.4% bulk water and 4.4% still beverages. Excluding the integration of these territories, volume grew 6.0% in 2011, to 1,461.8 million unit cases. Organically sparkling beverages sales volume increased 6.0% as compared to 2010, contributing more than 70% of incremental volumes. The bottled water category, including bulk water, grew 5.6%, accounting for more than 15% of incremental volumes. The still beverage category increased 7.5%, representing the remainder of incremental volumes.

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South America (Excluding Venezuela). Coca-Cola FEMSA's product portfolio in South America consists mainly of *Coca-Cola* trademark beverages and the *Kaiser* beer brands in Brazil, which Coca-Cola FEMSA sells and distributes. In 2008, as part of its efforts to strengthen its multi-category beverage portfolio, Coca-Cola FEMSA incorporated the *Jugos del Valle* line of juice-based beverages in Colombia. In 2009, this line of beverages was re-launched in Brazil as well. The acquisition of Brisa in 2009 helped Coca-Cola FEMSA to become the leader, as calculated by sales volume, in the water market in Colombia. In 2010, Coca-Cola FEMSA incorporated ready-to-drink beverages under the *Matte Leão* brand in Brazil. During 2011, as part of its continuous effort to develop non-carbonated beverages, Coca-Cola FEMSA launched *Cepita* in non-returnable PET bottles and *Hi-C*, an orangeade, both in Argentina. Beginning in 2009, as part of its efforts to foster sparkling beverage per capita consumption in Brazil, Coca-Cola FEMSA re-launched a 2.0-liter returnable plastic bottle for the *Coca-Cola* brand and introduced two single-serving 0.25-liter presentations. During 2011, these presentations contributed significantly to incremental volumes in Brazil. Per capita consumption of Coca-Cola FEMSA's beverages in Colombia, Brazil and Argentina was 129, 261 and 395 eight-ounce servings, respectively, in 2011. The following table highlights historical total sales volume and sales volume mix in South America (excluding Venezuela), not including beer:

	Year Ended December 31,		
	2011	2010	2009
	(millions of unit cases)		
Total Sales Volume			
Total	948.1	909.2	840.4
% Growth	4.3%	11.2%	8.4%
	(in percentages)		
Unit Case Volume Mix by Category			
Sparkling beverages	85.9%	85.5%	87.2%
Water ⁽¹⁾	9.2	10.1	8.8
Still beverages	4.9	4.4	4.0
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Includes bulk water volume.

Total sales volume was 948.1 million unit cases in 2011, an increase of 4.3% as compared to 909.2 million unit cases in 2010. Growth in sparkling beverages, mainly driven by sales of the *Coca-Cola* brand in both Argentina and Colombia, and the *Fanta* and *Schweppes* brands in Brazil, accounted for the majority of the growth during the year. Growth in still beverages, mainly driven by the *Jugos del Valle* line of products in Brazil and the *Cepita* juice brand and *Hi-C* orangeade in Argentina, represented the balance of incremental volumes. These increases compensated for a decrease in volume in Coca-Cola FEMSA's water portfolio, including bulk water, mainly driven by the reduction in volume of the *Brisa* brand in Colombia.

In 2011, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for: 39.6% in Colombia, a 240 basis points decrease as compared to 2010; 27.8% in Argentina, a decrease of 70 basis points as compared to 2010; and 15.8% in Brazil, a 100 basis points increase as compared to 2010. In 2011, multiple serving presentations represented 62.1%, 71.3% and 85.0% of total sparkling beverages sales volume in Colombia, Brazil and Argentina, respectively.

Coca-Cola FEMSA continues to distribute and sell the *Kaiser* beer portfolio in its Brazilian territories through the 20-year term, consistent with arrangements in place with Cervejarias Kaiser since 2006, prior to the acquisition of Cervejarias Kaiser by FEMSA Cerveza. Beginning in the second quarter of 2005, Coca-Cola FEMSA ceased including beer that it distributes in Brazil in its reported sales volumes. On April 30, 2010, the transaction pursuant to which we exchanged 100% of our beer operations for a 20% economic interest in the Heineken Group closed.

Venezuela. Coca-Cola FEMSA's product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Per capita consumption of Coca-Cola FEMSA's beverages in Venezuela during 2011 was 150 eight-ounce servings.

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

	Year Ended December 31,		
	2011	2010	2009
	(millions of unit cases)		
Total Sales Volume			
Total	189.8	211.0	225.2
% Growth	(10.0%)	(6.3%)	9.0%
	(in percentages)		
Unit Case Volume Mix by Category			
Sparkling beverages	91.7%	91.3%	91.7%
Water ⁽¹⁾	5.4	6.5	5.7
Still beverages	2.9	2.2	2.6
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Includes bulk water volume.

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Coca-Cola FEMSA has implemented a product portfolio rationalization strategy that allows it to minimize the impact of certain operating disruptions that have been recurrent in Venezuela over the last several years. During 2011, Coca-Cola FEMSA faced a 26-day strike at one of its Venezuelan production and distribution facilities and a difficult economic environment that prevented it from growing sales volume of its products. As a result, Coca-Cola FEMSA's sparkling beverage volume decreased by 9.6%.

In 2011, multiple serving presentations represented 78.4% of total sparkling beverages sales volume in Venezuela, an 80 basis points increase as compared to 2010. In 2011, returnable presentations represented 8.0% of total sparkling beverages sales volume in Venezuela, a 40 basis points increase as compared to 2010. Total sales volume was 189.8 million unit cases in 2011, a decrease of 10.0% as compared to 211.0 million unit cases in 2010.

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 Brazil and Argentina, Coca-Cola FEMSA's 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 marketing strategy to promote the sale and consumption of Coca-Cola FEMSA's products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of its consumers. Coca-Cola FEMSA's consolidated marketing expenses in 2011, net of contributions by The Coca-Cola Company, were Ps. 4,508 million. The Coca-Cola Company contributed an additional Ps. 2,561 million in 2011, which mainly includes contributions for coolers, bottles and cases. Through the use of advanced IT, Coca-Cola FEMSA has collected customer and consumer information that allows it to tailor its marketing strategies to target different types of customers located in each of its territories, and to meet the specific needs of the various markets it serves.

Retailer Support Programs. Support programs include providing retailers with point-of-sale display materials and consumer sales promotions, such as contests, sweepstakes and the giveaway of product samples.

Coolers. Cooler distribution among retailers is important for the visibility and consumption of Coca-Cola FEMSA's products and to ensure that they are sold at the proper temperature.

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 classify its markets and develop targeted efforts for each consumer segment or distribution channel. Coca-Cola FEMSA's principal channels are small retailers, "on-premise" consumption such as restaurants and bars, supermarkets and third-party distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of beverage 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.

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Multi-Segmentation. Coca-Cola FEMSA has been implementing a multi-segmentation strategy in the majority of its markets. This strategy consists of the implementation of different product/price/package portfolios by market cluster or group. These clusters are defined based on consumption occasion, competitive intensity and socio-economic levels, rather than solely on the types of distribution channels.

Client Value Management. Coca-Cola FEMSA has been transforming its commercial models to focus on its customers' value potential using a value-based segmentation approach to capture the industry's potential. Coca-Cola FEMSA started the rollout of this new model in its Mexico, Central America, Colombia and Brazil operations in 2009 and had covered close to 90% of its total volumes as of the end of 2011.

Coca-Cola FEMSA believes that the implementation of these strategies described above also enables it to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. In addition, it allows Coca-Cola FEMSA to be more efficient in the way it goes to market and invests its marketing resources in those segments that could provide a higher return. Coca-Cola FEMSA's marketing, segmentation and distribution 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 throughout its territories.

Product Sales and Distribution

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

Product Distribution Summary as of December 31, 2011

	<u>Mexico and Central America⁽¹⁾</u>	<u>South America⁽²⁾</u>	<u>Venezuela</u>
Distribution centers	152	65	32
Retailers ⁽³⁾	863,409	663,678	209,597

(1) Includes Mexico, Guatemala, Nicaragua, Costa Rica and Panama.

(2) Includes Colombia, Brazil and Argentina.

(3) Estimated.

Coca-Cola FEMSA continuously evaluates its distribution model in order to fit with the local dynamics of the marketplace and analyze 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, seeking improvements in its distribution network.

Coca-Cola FEMSA uses several sales and distribution models depending on market, geographic conditions and the customer's profile: (1) the pre-sale system, which separates the sales and delivery functions, permitting trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing both sales and distribution efficiency; (2) the conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck; (3) a hybrid distribution system, where the same truck carries product available for immediate sale and product previously ordered through the pre-sale system; (4) the telemarketing system, which could be combined with pre-sales visits; and (5) sales through third-party wholesalers of Coca-Cola FEMSA's products.

As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which Coca-Cola FEMSA believes enhance the shopper experience at the point of sale. Coca-Cola FEMSA believes that an adequate number of service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system for its products.

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

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locations through electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of its territories, Coca-Cola FEMSA retains third parties to transport its finished products from the bottling plants to the distribution centers.

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

In Mexico, Coca-Cola FEMSA sells a majority of its beverages at small retail stores to consumers who may take the beverages for consumption at home or elsewhere. It also sells products through the “on-premise” consumption segment, supermarkets and other locations. The “on-premise” consumption 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.

Brazil. In Brazil, Coca-Cola FEMSA sold 21.1% of its total sales volume through supermarkets in 2011. Also in Brazil, the delivery of its finished products to customers is completed by a third party, while it maintains control over the selling function. In designated zones in Brazil, third-party distributors purchase Coca-Cola FEMSA products at a discount from the wholesale price and resell the products to retailers.

Territories other than Mexico and Brazil. Coca-Cola FEMSA distributes its finished products to retailers through a combination of its own fleet of trucks and third-party distributors. In most of its territories, an important part of Coca-Cola FEMSA’s total sales volume is sold through small retailers, with low supermarket penetration.

Competition

Although Coca-Cola FEMSA believes that its products enjoy wider recognition and greater consumer loyalty than those of its principal competitors, the markets in the territories in which it operates are highly competitive. Coca-Cola FEMSA’s principal competitors are local *Pepsi* bottlers and other bottlers and distributors of national and regional beverage 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 Coca-Cola FEMSA’s competitors in Central America, Venezuela, Brazil and Argentina offer beer in addition to sparkling beverages, still beverages, and water, which may enable them to achieve distribution efficiencies.

Price discounting and packaging have joined consumer sales promotions, customer service and non-price retailer incentives as the primary means of competition among 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 and Central America. Coca-Cola FEMSA’s principal competitors in Mexico are bottlers of *Pepsi* products, whose territories overlap but are not co-extensive with Coca-Cola FEMSA’s. Coca-Cola FEMSA competes with a joint venture recently formed by Grupo Embotelladores Unidos, S.A.B. de C.V., the former *Pepsi* bottler in central and southeast Mexico, a subsidiary of PepsiCo, and Empresas Polar, S.A., the leading beer distributor and *Pepsi* bottler in Venezuela. Coca-Cola FEMSA’s main competition in the juice category in Mexico is Grupo Jumex. In the water category, *Bonafont*, a water brand owned by Group Danone, is its main competition. In addition, Coca-Cola FEMSA competes with Cadbury Schweppes in sparkling beverages and with other national and regional brands in its Mexican territories, as well as low-price producers, such as *Big Cola* and Consorcio AGA, S.A. de C.V., which offer various presentations of sparkling and still beverages.

In the countries that comprise Coca-Cola FEMSA’s Central America region, its main competitors are *Pepsi* and *Big Cola* bottlers. In Guatemala and Nicaragua, it competes with a joint venture between AmBev and The Central American Bottler Corporation. In Costa Rica, Coca-Cola FEMSA’s principal competitor is Florida Bebidas S.A., a subsidiary of Florida Ice and Farm Co. In Panama, its main competitor is Cervecería Nacional, S.A. Coca-Cola FEMSA also faces competition from “B brands” offering multiple-serving size presentations in some Central American countries.

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South America (excluding Venezuela). Coca-Cola FEMSA's principal competitor in Colombia is Postobón, a well-established local bottler that sells flavored sparkling beverages, some of which have a wide consumption preference, such as *manzana Postobón* (apple Postobón), which is the second most popular flavor in the Colombian sparkling beverage industry in terms of total sales volume. Postobón also sells *Pepsi* products. Postobón is a vertically integrated producer, the owners of which hold other significant commercial interests in Colombia. Coca-Cola FEMSA also competes with low-price producers, such as the producers of *Big Cola*, which principally offer multiple-serving size presentations in the sparkling and still beverage industry.

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 beer brands. Coca-Cola FEMSA also competes against "B brands" or "Tubainas," which are small, local producers of low-cost flavored sparkling beverages in multiple-serving presentations that represent a significant portion of the sparkling beverage market.

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

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 *Big Cola* in part of the country.

Raw Materials

Pursuant to Coca-Cola FEMSA's bottler agreements, it is authorized to manufacture, sell and distribute *Coca-Cola* trademark beverages within specific geographic areas, and is required to purchase in some of its territories, for all *Coca-Cola* trademark beverages, concentrate from companies designated by The Coca-Cola Company and artificial sweeteners from companies authorized by The Coca-Cola Company. Concentrate prices for sparkling beverages are determined as a percentage of the weighted average retail price 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 in Brazil and Mexico. These increases were fully implemented in Brazil in 2008 and in Mexico in 2009. As part of the cooperation framework that Coca-Cola FEMSA reached 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 concentrate increase for marketing support of Coca-Cola FEMSA's sparkling and still beverages portfolio. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions—Business Transactions between Coca-Cola FEMSA and The Coca-Cola Company."

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide (CO₂), resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, caps and fountain containers, as well as other packaging materials and raw materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for most of Coca-Cola FEMSA's beverages. Coca-Cola FEMSA's bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company, including affiliates of ours. Prices for packaging materials and HFCS historically have been 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 Coca-Cola FEMSA obtains from international and local producers. The prices of these materials are tied to crude oil prices and global resin supply. In recent years, Coca-Cola FEMSA has experienced volatility in the prices it pays for these materials. Across its territories, Coca-Cola FEMSA's average price for resin in U.S. dollars increased approximately 30% in 2011 as compared to 2010.

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Under Coca-Cola FEMSA's agreements with The Coca-Cola Company, it may use raw or refined sugar or HFCS as sweeteners in its products. Sugar prices in all of the countries in which Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay in excess of international market prices for sugar in certain countries. In recent years, international sugar prices have experienced significant volatility.

None of the materials or supplies that Coca-Cola FEMSA uses are 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 and Central America. In Mexico, Coca-Cola FEMSA purchases its returnable plastic bottles from Graham Packaging México, S.A. de C.V., known as Graham, which is the exclusive supplier of returnable plastic bottles to The Coca-Cola Company and its bottlers in Mexico. Coca-Cola FEMSA mainly purchases resin from Indorama Venturas Polymers México, S. de R.L. de C.V. (formerly Arteva Specialties, S. de R.L. de C.V.), M. & G. Polímeros México S.A. de C.V. and DAK Resinas Americas Mexico S.A. de C.V., which ALPLA México S.A. de C.V., known as ALPLA, and Envases Innovativos de México S.A. de C.V. manufacture into non-returnable plastic bottles for Coca-Cola FEMSA.

Coca-Cola FEMSA purchases all of its cans from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of Coca-Cola bottlers in which, as of April 20, 2012, Coca-Cola FEMSA held a 25.0% equity interest. Coca-Cola FEMSA mainly purchases its glass bottles from Compañía Vidriera, S.A. de C.V., known as VITRO, and Glass & Silice, S.A. de C.V. (formerly Vidriera de Chihuahua, S.A. de C.V., or VICHISA), a wholly-owned subsidiary of Cuauhtémoc Moctezuma (formerly FEMSA Cerveza), which currently is a wholly-owned subsidiary of the Heineken Group.

Coca-Cola FEMSA purchases sugar from, among other suppliers, Piasa and Beta San Miguel, S.A. de C.V., sugar cane producers in which, as of April 20, 2012, Coca-Cola FEMSA held approximately 13.2% and 2.5% equity interests, respectively. Coca-Cola FEMSA purchases HFCS from CP Ingredientes, S.A. de C.V. and Almidones Mexicanos, S.A. de C.V., known as Almex.

Imported sugar is 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, and in 2011, were 47% higher on average in Mexico. In 2011, sugar prices increased approximately 29% as compared to 2010.

In Central America, the majority of Coca-Cola FEMSA's raw materials such as glass and plastic bottles are purchased from several local suppliers. Coca-Cola FEMSA purchases all of its cans from PROMESA. Sugar is available from suppliers that represent several local producers. Local sugar prices in the countries that comprise the region have increased, mainly due to volatility in international prices. In Costa Rica, Coca-Cola FEMSA acquires plastic non-returnable bottles from ALPLA C.R. S.A., and in Nicaragua it acquires such plastic bottles from ALPLA Nicaragua, S.A.

South America (excluding Venezuela). In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, and buys such sugar from several domestic sources. During 2011, Coca-Cola FEMSA started to use HFCS as an alternative sweetener for its products. Coca-Cola FEMSA purchases HFCS from Archer Daniels Midland Company. It purchases plastic bottles from Amcor and Tapón Corona de Colombia S.A. It purchases all of its glass bottles from Peldar O-I and cans from Crown, both suppliers in which Grupo Ardila Lulle, owners of Coca-Cola FEMSA's competitor Postobón, owns a minority equity interest. Glass bottles and cans are available only from these local sources.

Sugar is available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels, and Coca-Cola FEMSA's average acquisition cost for sugar in 2011 increased approximately 30% as compared to 2010. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

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In Argentina, Coca-Cola FEMSA mainly uses HFCS that it purchases 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. It 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 local suppliers. Coca-Cola FEMSA also acquires pre-formed plastic ingots from ALPLA Avellaneda S.A. and other suppliers. Coca-Cola FEMSA produces its own can presentations, aseptic packaging and hot filled products for distribution of its products to its customers in Buenos Aires.

Venezuela. Coca-Cola FEMSA uses sugar as a sweetener in all of its products, and purchases such sugar mainly from the local market. Since 2003, from time to time, Coca-Cola FEMSA has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. While sugar distribution to the food and beverages industry and to retailers is controlled by the government, Coca-Cola FEMSA did not experience any disruptions during 2011 with respect to access to sufficient sugar supply. However, we cannot assure you that Coca-Cola FEMSA will not experience disruptions in its ability to meet its sugar requirements in the future, should the Venezuelan government impose restrictive measures in the future. Coca-Cola FEMSA buys glass bottles from one local supplier, Productos de Vidrio, S.A., but there are alternative suppliers authorized by The Coca-Cola Company. Coca-Cola FEMSA acquires most of its plastic non-returnable bottles from ALPLA de Venezuela, S.A. and all of its aluminum cans from a local producer, Dominguez Continental, C.A.

Under current regulations promulgated by the Venezuelan authorities, Coca-Cola FEMSA's ability to import some of its raw materials and other supplies used in its production could be limited, and access to the official exchange rate for these items for Coca-Cola FEMSA and its suppliers, including, among other items, resin, aluminum, plastic caps, distribution trucks and vehicles, is only achieved by obtaining proper approvals from the relevant authorities.

Plants and Facilities

Over the past several years, Coca-Cola FEMSA made significant capital investments to modernize its facilities and improve operating efficiency and productivity, including:

- increasing the annual capacity of its bottling plants by installing new production lines;
- installing clarification facilities to process different types of sweeteners;
- installing plastic bottle-blowing equipment;
- modifying equipment to increase flexibility to produce different presentations, including faster sanitation and changeover times on production lines; and
- closing obsolete production facilities.

As of December 31, 2011, Coca-Cola FEMSA owned 35 bottling plants company-wide. By country, it has fourteen bottling facilities in Mexico, five in Central America, six in Colombia, four in Venezuela, four in Brazil and two in Argentina.

As of December 31, 2011, Coca-Cola FEMSA operated 249 distribution centers, approximately 51% of which were in its Mexican territories. Coca-Cola FEMSA owns more than 86% of these distribution centers and leases the remainder. See "Item 4. Information on the Company—Coca-Cola FEMSA—Product Sales and Distribution."

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The table below summarizes by country, installed capacity and percentage utilization of Coca-Cola FEMSA's production facilities:

**Bottling Facility Summary
As of December 31, 2011**

<u>Country</u>	<u>Installed Capacity (thousands of unit cases)</u>	<u>% Utilization⁽¹⁾</u>
Mexico	1,897,760	70%
Guatemala	34,544	80%
Nicaragua	65,475	58%
Costa Rica	84,238	54%
Panama	40,754	64%
Colombia	531,046	47%
Venezuela	296,052	63%
Brazil	650,356	68%
Argentina	316,040	66%

(1) Annualized rate.

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, 2011, under the trade name OXXO. As of December 31, 2011, FEMSA Comercio operated 9,561 OXXO stores, of which 9,538 are located throughout the country, with a particularly strong presence in the northern part of Mexico, and the remaining 23 stores are located in Bogotá, Colombia.

FEMSA Comercio, the largest single customer of Cuauhtémoc Moctezuma 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 2011, a typical OXXO store carried 2,324 different store keeping units (SKUs) in 31 main product categories.

In recent years, FEMSA Comercio has represented 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 960, 1,092 and 1,135 net new OXXO stores in 2009, 2010 and 2011, respectively. The accelerated expansion in the number of stores yielded total revenue growth of 19.0% to reach Ps. 74,112 million in 2011. Same store sales increased an average of 9.2%, driven by increases in store traffic and average customer ticket. Starting in 2008, FEMSA Comercio revenues reflect an accounting effect of the mix shift from physical prepaid wireless air-time cards to the sale of electronic air-time for which only the margin is recorded, not the full revenue amount of the electronic recharge. FEMSA Comercio performed approximately 2.7 billion transactions in 2011 compared to 2.3 billion transactions in 2010.

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 IT to improve its ability to capture customer information from its existing stores and to improve its overall operating performance. The majority of 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 utilizes a technology platform supported by an enterprise resource planning (ERP) system, as well as other technological solutions such as merchandising and point-of-sale systems, which will allow FEMSA Comercio to continue redesigning its key operating processes and enhance the usefulness of its market information going forward. In addition, FEMSA Comercio has expanded its operations by opening six new stores in Bogotá, Colombia in 2011.

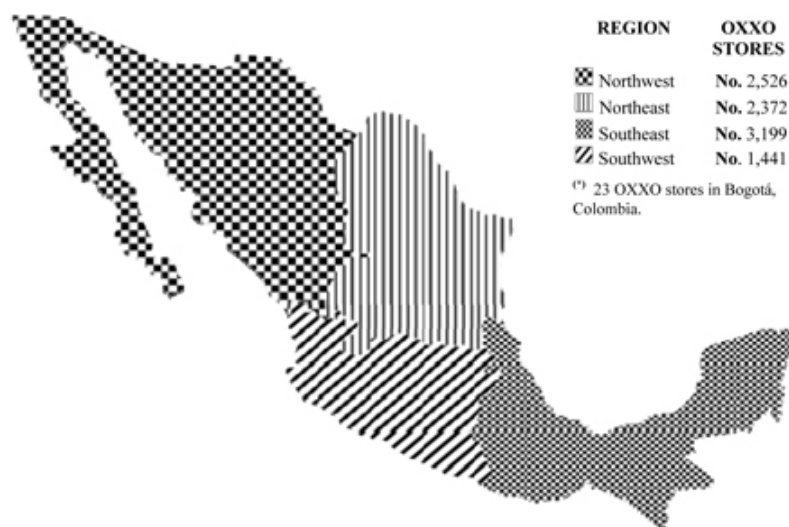
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FEMSA Comercio has adopted innovative promotional strategies in order to increase store traffic and sales. In particular, FEMSA Comercio sells high-frequency items such as beverages, snacks and cigarettes at competitive prices. FEMSA Comercio's ability 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. FEMSA Comercio is also strengthening its capabilities to increasingly provide consumers with services such as utility bill payment and other basic transactions.

Store Locations

With 9,538 OXXO stores in Mexico and 23 stores in Colombia as of December 31, 2011, 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 the rest of the country.

FEMSA Comercio
Regional Allocation of OXXO Stores in Mexico and Latin America^(*)
as of December 31, 2011



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,				
	2011	2010	2009	2008	2007
Total OXXO stores	9,561	8,426	7,334	6,374	5,563
Store growth (% change over previous year)	13.5%	14.9%	15.1%	14.6%	14.8%

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, 2007 and 2011, the total number of OXXO stores increased by 3,998, which resulted from the opening of 4,091 new stores and the closing of 93 existing stores.

Competition

OXXO competes in the overall retail market, which we believe is highly competitive. OXXO convenience stores face direct competition from 7-Eleven, Super Extra, Super City and Círculo K, and other local convenience stores as well as from a number of other modern and traditional retail formats. 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 FEMSA Comercio operates approximately 66% of the stores in Mexico that could be considered part of the convenience store segment of the retail market as of the end of December 31, 2011. OXXO convenience stores also face competition from numerous small chains of retailers across Mexico and from retailers that participate with store formats other than convenience stores. Furthermore, FEMSA Comercio operates in the 32 Mexican 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 62% 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 106 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 is approximately 432 square meters.

FEMSA Comercio—Operating Indicators

	Year Ended December 31,				
	2011	2010	2009	2008	2007
Total FEMSA Comercio revenues	19.0%	16.3%	13.6%	12.0%	14.3%
OXXO same-store sales ⁽¹⁾	9.2%	5.2%	1.3%	0.4%	3.3%

(1) Same-store sales growth is calculated by comparing the sales of stores for each year that have been in operation for more than 12 months with the sales of those same stores during the previous year.

Beer, cigarettes, soft drinks, snacks and cellular telephone air-time represent the main product categories for OXXO stores. FEMSA Comercio has a distribution agreement with Cuauhtémoc Moctezuma (which is now part of the Heineken Group). As a result of this agreement, OXXO stores only carry beer brands produced and distributed by Cuauhtémoc Moctezuma. OXXO stores will continue to benefit from the existing relationship under which Cuauhtémoc Moctezuma will continue to be the exclusive supplier of beer to OXXO until June 2020. 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. Beginning in 2001, certain OXXO stores began selling other brands of sparkling beverages in some cities in Mexico.

Approximately 67% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The managers are commission agents and are not employees of FEMSA Comercio. Each store manager is the legal employer of the store's staff, which typically numbers six people per store. FEMSA Comercio continually invests in on-site operating personnel, with the objective of promoting loyalty, customer service and low personnel turnover in the stores.

Advertising and Promotion

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

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

Inventory and Purchasing

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

Management believes that the OXXO chain's scale of operations provides FEMSA Comercio with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level, depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks, cigarettes and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 52% of the OXXO chain's total sales consist of products that are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by FEMSA Comercio's distribution

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system, which includes 13 regional warehouses located in Monterrey, Guadalajara, Mexicali, Mérida, León, Obregón, Puebla, Chihuahua, Reynosa, Tijuana, Villahermosa and two in Mexico City. The distribution centers operate a fleet of approximately 627 trucks that make deliveries to each store approximately twice per 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 small format stores, which include soft discount stores with a focus on perishables, liquor stores and smaller convenience stores.

FEMSA Cerveza and Equity Method Investment in the Heineken Group

Until April 30, 2010, FEMSA Cerveza was our wholly-owned subsidiary, producing beer in Mexico and Brazil and exporting its products to more than 50 countries worldwide, with North America being its most important export market, followed by certain markets in Europe, Latin America and Asia. As of December 31, 2009, FEMSA Cerveza was ranked the tenth-largest brewer in the world in terms of sales volume, and in Mexico, its main market, FEMSA Cerveza was ranked the second-largest beer producer in terms of sales volume. In 2009, approximately 66.4% of FEMSA Cerveza's sales volume came from Mexico, with the remaining 24.8% from Brazil and 8.8% from exports. As of December 31, 2009, FEMSA Cerveza sold 40.548 million hectoliters of beer and produced and/or distributed 21 brands of beer in 14 different presentations resulting in a portfolio of 111 different product offerings in Mexico.

As of December 31, 2009, FEMSA Cerveza represented 23.5% of our total revenues and 34.1% of our total assets. For the period from January 1, 2010 to April 30, 2010, FEMSA Cerveza contributed net income of Ps. 706 million to our net income. On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in "Item 10. Additional Information—Material Contracts."

As of April 30, 2010, FEMSA owns a non-controlling interest in the Heineken Group, one of the world's leading brewers. Our 20% economic interest in the Heineken Group was initially comprised of 43,018,320 shares of Heineken Holding N.V. and 43,009,699 shares of Heineken N.V., with an additional 29,172,504 Allotted Shares to be delivered pursuant to the ASDI. As of December 31, 2011, the delivery of the Allotted Shares had been completed. See Note 9 to our audited consolidated financial statements. For 2011, FEMSA recognized equity income of Ps. 5,080 million regarding its 20% economic interest in the Heineken Group.

As described above, FEMSA Comercio has a distribution agreement with Cuauhtémoc Moctezuma (which is now a part of the Heineken Group) pursuant to which OXXO stores only carry beer brands produced and distributed by Cuauhtémoc Moctezuma. OXXO stores will continue to benefit from the existing relationship under which Cuauhtémoc Moctezuma will continue to be the exclusive supplier of beer to OXXO until June 2020. As of April 30, 2010, Coca-Cola FEMSA has agreed with Cervejarias Kaiser (also now part of the Heineken Group) to continue to distribute and sell the Kaiser beer portfolio in Coca-Cola FEMSA's Brazilian territories for a 20-year term beginning in 2003, consistent with the arrangement already in place. In addition, our corporate and shared services subsidiary will continue to provide certain services to Cuauhtémoc Moctezuma and its subsidiaries.

Other Business

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

- Our refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 404,000 units at December 31, 2011. In 2011, this business sold 350,040 refrigeration units, 30% of which were sold to Coca-Cola FEMSA, and the remainder of which were sold to third parties. Until December 31, 2010, our labeling and flexible packaging business was our wholly-owned subsidiary. In 2010, this business sold 14% of its label sales volume to Cuauhtémoc Moctezuma, 20% to Coca-Cola FEMSA and 66% to third parties. Our labeling and flexible packaging business was sold on December 31, 2010.
- Our logistics services subsidiary provides a broad range of logistics and vehicle maintenance services to Coca-Cola FEMSA, FEMSA Comercio, Cuauhtémoc Moctezuma and third-party clients in the beverages, consumer products and retail industries. It has operations in Mexico, Brazil, Colombia, Panama, Costa Rica and Nicaragua.
- Until September 23, 2010 we owned the *Mundet* brands in Mexico, which were disposed of through the sale to The Coca-Cola Company of Promotora de Marcas Nacionales, S.A. de C.V., which was a wholly-owned subsidiary of 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. As of December 31, 2011, FEMSA Comercio, FEMSA Logística and our packaging subsidiaries pay management fees for the services provided to them. In addition, Coca-Cola FEMSA has entered into a services agreement pursuant to which it pays for specific services. As part of the Heineken transaction, the corporate and shared services subsidiaries continue to provide some limited corporate services and shared services to subsidiaries of Cuauhtémoc Moctezuma (now part of the Heineken Group), for which such companies continue to pay.

Description of Property, Plant and Equipment

As of December 31, 2011, 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 soft drink operations and office space. In addition, FEMSA Comercio owns approximately 10.9% 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, each of which is owned by Coca-Cola FEMSA.

Production Facilities As of December 31, 2011

<u>Country</u>	<u>Location</u>	<u>Principal Use</u>	<u>Production Area (in thousands of sq. meters)</u>
<i>Mexico</i>	San Cristóbal de las Casas, Chiapas	Soft Drink Bottling Plant	45
	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
	León, Guanajuato	Soft Drink Bottling Plant	124
	Morelia, Michoacán	Soft Drink Bottling Plant	50
	Ixtacomitán, Tabasco	Soft Drink Bottling Plant	117
	Apizaco, Tlaxcala	Soft Drink Bottling Plant	80
	Coatepec, Veracruz	Soft Drink Bottling Plant	142
	La Pureza Altamira, Tamaulipas	Soft Drink Bottling Plant	300
	Poza Rica, Veracruz	Soft Drink Bottling Plant	42
	Pacífico, Estado de México	Soft Drink Bottling Plant	89
	Cuernavaca, Morelos	Soft Drink Bottling Plant	37
Toluca, Estado de México	Soft Drink Bottling Plant	41	
<i>Guatemala</i>	Guatemala City	Soft Drink Bottling Plant	47
<i>Nicaragua</i>	Managua	Soft Drink Bottling Plant	54
<i>Costa Rica</i>	Calle Blancos, San José	Soft Drink Bottling Plant	52
	Coronado, San José	Soft Drink Bottling Plant	14
<i>Panama</i>	Panama City	Soft Drink Bottling Plant	29
<i>Colombia</i>	Barranquilla	Soft Drink Bottling Plant	37
	Bogotá	Soft Drink Bottling Plant	105
	Bucaramanga	Soft Drink Bottling Plant	26
	Cali	Soft Drink Bottling Plant	76
	Manantial	Soft Drink Bottling Plant	67
	Medellín	Soft Drink Bottling Plant	47
<i>Venezuela</i>	Antimano	Soft Drink Bottling Plant	15
	Barcelona	Soft Drink Bottling Plant	141
	Maracaibo	Soft Drink Bottling Plant	68
	Valencia	Soft Drink Bottling Plant	100
<i>Brazil</i>	Campo Grande	Soft Drink Bottling Plant	36
	Jundiaí	Soft Drink Bottling Plant	191
	Mogi das Cruzes	Soft Drink Bottling Plant	119
	Belo Horizonte	Soft Drink Bottling Plant	73
<i>Argentina</i>	Alcorta	Soft Drink Bottling Plant	73
	Monte Grande, Buenos Aires	Soft Drink Bottling Plant	32

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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 for “all risk” property insurance and “all risk” liability insurance are issued by ACE Seguros, S.A., 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, 2011, 2010, and 2009 were Ps. 12,515 million, Ps. 11,171 million and Ps. 9,103 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,		
	2011	2010	2009
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps. 7,826	Ps. 7,478	Ps. 6,282
FEMSA Comercio	4,096	3,324	2,668
Other	593	369	153
Total ⁽¹⁾	Ps. 12,515	Ps. 11,171	Ps. 9,103

(1) Capital expenditures and divestitures in 2009 have been modified in order to conform to presentation of 2011 and 2010 figures due to the discontinued operations of FEMSA Cerveza.

Coca-Cola FEMSA

During 2011, Coca-Cola FEMSA’s capital expenditures focused on increasing plant production capacity, placing coolers with retailers, returnable bottles and cases, improving the efficiency of its distribution infrastructure and IT. Capital expenditures in Mexico and Central America were approximately Ps. 4,117 million and accounted for approximately 53% of Coca-Cola FEMSA’s capital expenditures, with South America representing the balance.

FEMSA Comercio

FEMSA Comercio’s principal investment activity is the construction and opening of new stores. During 2011, FEMSA Comercio opened 1,135 net new OXXO stores. FEMSA Comercio invested Ps. 4,096 million in 2011 in the addition of new stores, warehouses and improvements to leased properties.

Regulatory Matters

Competition Legislation

The *Ley Federal de Competencia Económica* (Federal Economic Competition Law or Mexican Competition Law) became effective on June 22, 1993. The Mexican Competition Law and the *Reglamento de la Ley Federal de Competencia Económica* (Regulations under the Mexican Competition Law), effective as of October 13, 2007, 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.

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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 from operations. See “Item 8. Financial Information—Legal Proceedings—Coca-Cola FEMSA—Antitrust Matters.”

Price Controls

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which Coca-Cola FEMSA operates. Currently, there are no price controls on Coca-Cola FEMSA’s products in any of its territories, except for (i) Argentina, where authorities directly supervise certain products sold through supermarkets to control inflation, and (ii) Venezuela, where the government has recently imposed price controls on certain products including still bottled water. See “Item 3. Key Information—Risk Factors—*Regulatory developments may adversely affect Coca-Cola FEMSA’s business.*”

Taxation of Sparkling Beverages

All the countries in which Coca-Cola FEMSA operates, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16% in Mexico beginning in January 2011, 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 16% in Colombia (applied only to the first sale in supply chain), 12% in Venezuela (beginning in April 2009), 17% (Mato Grosso do Sul) and 18% (São Paulo and Minas Gerais) in Brazil, and 21% in Argentina. In addition, several of the countries in which Coca-Cola FEMSA operates impose the following excise or other taxes:

- Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.3221 as of December 31, 2011) per liter of sparkling beverage.
- Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, currently assessed at 15.50 colones (Ps. 0.4180 as of December 31, 2011) per 250 ml, and an excise tax on local brands of 5%, foreign brands of 10% and mixers of 14%.
- Nicaragua imposes a 9% tax on consumption, and municipalities impose a 1% tax on Coca-Cola FEMSA’s Nicaraguan gross income.
- Panama imposes a 5% tax based on the cost of goods produced. Panama also imposes a 10% selective consumption tax on syrups, powders and concentrate.
- Brazil imposes an average production tax of approximately 4.9% and an average sales tax of approximately 9.6%, both assessed by the federal government. Most of these taxes are fixed, based on average retail prices in each state where the company operates (VAT) or fixed by the federal government (excise and sales tax).
- Argentina imposes an excise tax on sparkling beverages containing less than 5% lemon juice or less than 10% fruit juice of 8.7%, and an excise tax on flavored sparkling beverages with 10% or more fruit juice and on sparkling water of 4.2%, although this excise tax is not applicable to certain of Coca-Cola FEMSA’s products.

Environmental Matters

In all of our territories, our operations 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* (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* (General Law for the Prevention and Integral Management of Waste), which are enforced by the *Secretaría de Medio Ambiente y Recursos Naturales* (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 “Item 4. Information on the Company—Coca-Cola FEMSA—Total Sales and Distribution.”

In addition, we are subject to the *Ley de Aguas Nacionales*, as amended (the National Water Law), enforced by the *Comisión Nacional del Agua* (the National Water Commission). Adopted in December 1992, and amended in 2004, the National Water Law provides that plants located in Mexico that use deep water wells to supply their water requirements must pay a fee to the local governments for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by the National Water Commission. In the case of non-compliance with the law, penalties, including closures, may be imposed. All of Coca-Cola FEMSA’s bottler plants located in Mexico have met these standards. In addition, Coca-Cola FEMSA’s plants in Apizaco and San Cristóbal are certified with ISO 14001.

In Coca-Cola FEMSA’s Mexican operations, it established a partnership with The Coca-Cola Company and ALPLA, a supplier of plastic bottles to Coca-Cola FEMSA in Mexico, to create *Industria Mexicana de Reciclaje* (IMER), a PET recycling facility located in Toluca, Mexico. This facility started operations in 2005 and has a recycling capacity of approximately 25,000 metric tons per year from which 15,000 metric tons can be re-used in PET bottles for food packaging purposes. Coca-Cola FEMSA has also continued contributing funds to a nationwide recycling company, *Ecología y Compromiso Empresarial* (Environmentally Committed Companies). In addition, Coca-Cola FEMSA’s plants located in Toluca, Reyes, Cuautitlán, Apizaco, San Cristóbal, Morelia, Ixtacomitan, Coatepec, Poza Rica and Cuernavaca have received a *Certificado de Industria Limpia* (Certificate of Clean Industry).

As part of our environmental protection and sustainability strategies, several of our subsidiaries have entered into 20-year wind power supply agreements with the Mareña Renovables Wind Power Farm to receive electrical energy for use at production and distribution facilities of FEMSA and Coca-Cola FEMSA throughout Mexico, as well as for a significant number of OXXO convenience stores. The Mareña Renovables Wind Power Farm will be located in the state of Oaxaca and is expected to have a capacity of 396 megawatts. We anticipate the Mareña Renovables Wind Power Farm will begin operations in 2013.

Also as part of Coca-Cola FEMSA’s environmental protection and sustainability strategies, in December 2009, Coca-Cola FEMSA, jointly with strategic partners, entered into a wind energy supply agreement with a Mexican subsidiary of the Spanish wind farm developer, GAMESA Energía, S.A., or GAMESA, to supply green energy to Coca-Cola FEMSA’s bottling facility in Toluca, Mexico, owned by its subsidiary, Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), or Propimex, and to some of its suppliers of PET bottles. The wind farm generating such energy, which is located in La Ventosa, Oaxaca, is expected to generate approximately 100 thousand megawatt hours of energy annually. The energy supply services began in April 2010 and, during 2010, provided Coca-Cola FEMSA with approximately 45 thousand megawatt hours of energy. In 2010, GAMESA sold its interest in the Mexican subsidiary that owned the wind farm to Iberdrola Renovables México, S.A. de C.V.

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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 hazardous 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 on the timeline established by the relevant regulatory authorities. Coca-Cola FEMSA's Costa Rica and Panama 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 and toxic and hazardous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. For Coca-Cola FEMSA's plants in Colombia, it has obtained the *Certificación Ambiental Fase IV* (Phase IV Environmental Certificate) demonstrating its compliance at the highest level with relevant Colombian regulations. Coca-Cola FEMSA is also engaged in nationwide campaigns for the collection and recycling of glass and plastic bottles as well as reforestation programs. In 2011, jointly with the FEMSA Foundation, Coca-Cola FEMSA was awarded with the "Western Hemisphere Corporate Citizenship Award" for the social responsibility programs it carried out to respond to the extreme weather experienced in Colombia in 2010 and 2011, known locally as the "winter emergency." In addition, Coca-Cola FEMSA also obtained the ISO 9001, ISO-22000 and PAS 220 certifications for its plants located in Medellín, Cali, Bogotá, Barranquilla, Bucaramanga and La Calera, as recognition for the highest quality in its production processes.

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* (Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (Criminal Environmental Law) and the *Ley de Aguas* (Water 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 applicable laws, which mainly consist of building or expanding the capacity of water treatment plants in Coca-Cola FEMSA's bottling facilities. Even though Coca-Cola FEMSA has had to adjust some of the originally proposed timelines due to construction delays, in 2009, Coca-Cola FEMSA completed the construction and received all the required permits to operate a new water treatment plant in its bottling facility located in the city of Barcelona. At the end of 2011, Coca-Cola FEMSA constructed a new water treatment plant in its bottling plant in the city of Valencia, which began operations in February 2012. During 2011, Coca-Cola FEMSA also commenced construction of a new water treatment plant in its Antimano bottling plant in Caracas, which construction is expected to conclude during the second quarter of 2012. Coca-Cola FEMSA is also concluding the process of obtaining the necessary authorizations and licenses before it can begin the construction and expansion of its current water treatment plant in its bottling facility in Maracaibo. In December 2011, Coca-Cola FEMSA also obtained the ISO 14000 certification for all of its plants in Venezuela.

In addition, in December 2010, the Venezuelan government approved the *Ley Integral de Gestión de la Basura* (Comprehensive Waste Management Law), which will regulate solid waste management and which may be applicable to manufacturers of products for mass consumption. The full scope of this law has not yet been established.

Brazil

Coca-Cola FEMSA's Brazilian operations are subject to several federal, state and municipal laws and regulations related to the protection of the environment. Among the most relevant laws and regulations are those dealing with the emission of toxic and hazardous gases, disposal of wastewater and solid waste, and soil contamination by hazardous chemicals, which impose penalties, such as fines, facility closures or criminal charges depending upon the level of non-compliance.

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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: (i) ISO 9001 since 1993; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; (iv) ISO 22000 since 2007; and (v) PAS: 96 since 2010.

In Brazil it is also necessary to obtain concessions from the government to cast drainage. Coca-Cola FEMSA's plants in Brazil have been granted this concession, except Mogi das Cruzes, where it has timely begun the process of obtaining one. In December, 2010, Coca-Cola FEMSA increased the capacity of the water treatment plant in its Jundiaí facility.

In Brazil, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, came into effect in May 2008. This regulation requires Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the City of São Paulo; such percentage increases each year. As of May 2009, Coca-Cola FEMSA was required to collect for recycling 50% of the PET bottles it sold in the City of São Paulo. As of May 2010, it was required to collect 75%, and as of May 2011, it was required to collect 90%. Currently, Coca-Cola FEMSA is not able to collect the entire required volume of PET bottles it has sold in the City of São Paulo for recycling. If Coca-Cola FEMSA does not meet the requirements of this regulation, which we believe to be more onerous than those imposed by the countries with the highest recycling standards, it could be fined and be subject to other sanctions, such as the suspension of operations in any of its plants and/or distribution centers located in the City of São Paulo. In May 2008, Coca-Cola FEMSA, together with other bottlers in São Paulo, through the *Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas* (Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR), filed a motion requesting a court to overturn this regulation on the basis of impossibility of compliance. In addition, in November 2009, in response to a requirement of the municipal authority for Coca-Cola FEMSA to demonstrate the destination of the PET bottles sold by it in the City of São Paulo, Coca-Cola FEMSA filed a motion showing all of its recycling programs and requesting a more practical timeline to comply with the requirements of the law. In October 2010, the municipal authority of the City of São Paulo levied a fine on Coca-Cola FEMSA's Brazilian operating subsidiary of 250,000 Brazilian reais (approximately Ps. 1,750,000 as of December 31, 2010) on the grounds that the report submitted by Coca-Cola FEMSA's Brazilian operating subsidiary did not comply with the 75% proper disposal requirement for the period from May 2008 to May 2010. Coca-Cola FEMSA filed an appeal against this fine. Coca-Cola FEMSA is currently awaiting resolution of both matters.

In August 2010, Law No. 12.305/2010 established the Brazilian National Solid Waste Policy. This policy is based on the principle of shared responsibility between the government, companies and the public, and provides for the post-consumption return of products to companies and requires public authorities to implement waste management programs. This law is regulated by Federal Decree No. 7.404/2010, and was published in December 2010. Coca-Cola FEMSA is currently discussing with the relevant authorities the impact this law may have on Brazilian companies in complying with the regulation in effect in the City of São Paulo.

Argentina

Coca-Cola FEMSA's Argentine operations are subject to federal and municipal 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* (Ministry of Natural Resources and Sustainable Development) and the *Organismo Provincial para el Desarrollo Sostenible* (Provincial Organization for Sustainable Development) for the province of Buenos Aires. Coca-Cola FEMSA's Alcorta plant is in compliance with environmental standards and Coca-Cola FEMSA has been certified for ISO 14001:2004 for its plants and operative units in Buenos Aires.

For all of Coca-Cola FEMSA's plant operations, it employs an environmental management system: *Sistema de Administración Ambiental* (Environmental Administration System, or EKOSYSTEM) that is contained within *Sistema Integral de Calidad* (Integral Quality System, or SICKOF).

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Coca-Cola FEMSA has 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 Coca-Cola FEMSA's results from operations, or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly more stringent in Coca-Cola FEMSA's territories, and there is increased recognition by local authorities of the need for higher environmental standards in the countries where it operates, changes in current regulations may result in an increase in costs, which may have an adverse effect on Coca-Cola FEMSA's future results from operations or financial condition. Coca-Cola FEMSA's management is not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

We do not believe that Coca-Cola FEMSA's business activities pose a material risk to the environment, and we believe that Coca-Cola FEMSA is in material compliance with all applicable environmental laws and regulations.

Other regulations

In December 2009, the Venezuelan government issued a decree requiring a reduction in energy consumption by at least 20% for industrial companies whose consumption is greater than two megawatts per hour and to submit an energy-usage reduction plan. Some of Coca-Cola FEMSA's bottling operations in Venezuela outside of Caracas met this threshold and it submitted a plan, which included the purchase of generators for its plants. In January 2010, the Venezuelan government subsequently implemented power cuts and other measures for all industries in Caracas whose consumption was above 35 kilowatts per hour.

In January 2010, the Venezuelan government amended the Defense of and Access to Goods and Services Law. Any violation by a company that produces, distributes and sells goods and services could lead to fines, penalties or the confiscation of the assets used to produce, distribute and sell these goods without compensation. Although we believe Coca-Cola FEMSA is in compliance with this law, consumer protection laws in Venezuela are subject to continuing review and changes.

In July 2011, the Venezuelan government passed the Fair Costs and Prices Law. The purpose of this law is to establish the regulations and administrative processes necessary to maintain the price stability of, and equal access to, goods and services. The law also creates the National Ministry of Costs and Prices, whose main role is to oversee price controls and set maximum retail prices on certain consumer goods and services. Of Coca-Cola FEMSA's products, only certain of its still water beverages were affected by these regulations, which mandated a lowering of its sale prices as of April 2012. Any failure to comply with this law would result in fines, temporary suspension or the closure of operations. While Coca-Cola FEMSA is presently in compliance with this law, we cannot assure you that the Venezuelan government's future regulation of goods and services will not result in a forced reduction of prices in respect of certain of Coca-Cola FEMSA's other products, which could have a negative effect on its results of operations.

In January 2012, the Costa Rican government approved a decree that regulates the sale of food and beverages in schools. The decree came into effect in 2012. Enforcement of this law will be gradual, from applicability in 2012 to 2014, depending on the specific characteristics of the food or beverage in question. In accordance with the decree, the sale of specific sparkling beverages and still beverages that contain sugar, syrup or HFCS in any type of presentation in schools is prohibited. Coca-Cola FEMSA will still be allowed to sell water and certain still beverages in schools. We cannot assure you that the Costa Rican government will not further restrict sales of other of Coca-Cola FEMSA's products in schools in the future; any such further restrictions could lead to an adverse impact on Coca-Cola FEMSA's results of operations.

Water Supply Law

In Mexico, Coca-Cola FEMSA obtains water directly from municipal utility companies and pumps water from its own wells and rivers pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the National Water Law, and regulations issued thereunder, which created the National Water Commission. The National Water Commission is in charge of overseeing the national system of water use. Under the National Water Law, concessions for the use of a specific volume of

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ground or surface water generally run from five- to fifty-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request that concession terms be extended before expiration. 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 two consecutive years. However, because the current concessions for each of 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.

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.

In Argentina, a state water company provides water to Coca-Cola FEMSA's Alcorta plant on a limited basis; however, we believe the authorized amount meets Coca-Cola FEMSA's requirements for this plant. In Coca-Cola FEMSA's Monte Grande plant in Argentina, it pumps water from its own wells, in accordance with Law 25.688.

In Brazil, we buy water directly from municipal utility companies and we also capture water from underground sources, wells or surface sources (*i.e.* rivers), pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution, water is considered an asset of common use and can only be exploited for the national interest by Brazilians or companies formed under Brazilian law. Concessionaires and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the *Código de Mineração* (Code of Mining, Decree Law No. 227/67), the *Código de Águas Minerais* (Mineral Water Code, Decree Law No. 7841/45), the National Water Resources Policy (Law No. 9433/97) and by regulations issued thereunder. The companies that exploit water are supervised by the *Departamento Nacional de Produção Mineiral—DNPM* (National Department of Mineral Production) and the National Water Agency in connection with federal health agencies, as well as state and municipal authorities. In Coca-Cola FEMSA's Jundiá and Belo Horizonte plants, we do not exploit mineral water. In the Mogi das Cruzes and Campo Grande plants, we have all the necessary permits related for the exploitation of mineral water.

In Colombia, in addition to natural spring water, Coca-Cola FEMSA obtains water directly from its own wells and from utility companies. Coca-Cola FEMSA is required to have a specific concession to exploit water from natural sources. Water use in Colombia is regulated by law No. 9 of 1979 and decrees no. 1594 of 1984 and no. 2811 of 1974. The National Institute of National Resources supervises companies that exploit water.

In Nicaragua, the use of water is regulated by the *Ley General de Aguas Nacionales* (National Water Law), and in Costa Rica, the use of water is regulated by the *Ley de Aguas* (Water Law). In both of these countries, Coca-Cola FEMSA owns and exploits its own water wells granted to it through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in Coca-Cola FEMSA's own plants. In Panama, Coca-Cola FEMSA acquires water from a state water company, and the use of water is regulated by the *Reglamento de Uso de Aguas de Panamá* (Panama Use of Water Regulation). In Venezuela, Coca-Cola FEMSA uses private wells in addition to water provided by the municipalities, and it has taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources, regulated by the *Ley de Aguas* (Water Law).

We cannot assure you that water will be available in sufficient quantities to meet our future production needs, that we will be able to maintain our current concessions or that additional regulations relating to water use will not be adopted in the future in our territories. We believe that we are in material compliance with the terms of our existing water concessions and that we are in compliance with all relevant water regulations.

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 FRS, 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 FRS and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income, and cash flows for the same periods presented for Mexican FRS purposes and for the consolidated statement of changes in stockholders' equity for the years ended December 31, 2010 and 2011, and reconciliation to U.S. GAAP of net income, comprehensive 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 from operations and financial position during the periods discussed in this section:

- Coca-Cola FEMSA's Mexico and Central America region continues growing volumes at a steady but moderate pace, as does the South America region. The *Coca-Cola* brand, together with the recently added still-beverage operation, delivered the majority of volume growth.
- FEMSA Comercio accelerated its rate of OXXO store openings and continues 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 business. Given that FEMSA Comercio has lower operating margins and fixed costs, it is more sensitive to changes in sales which could negatively affect operating margins.

Our results from operations and financial position are affected by the economic and market conditions in the countries where our subsidiaries conduct their operations, particularly in Mexico. Changes in these conditions are influenced by a number of factors, including those discussed in "Item 3. Key Information—Risk Factors."

Recent Developments

On December 15, 2011, Coca-Cola FEMSA entered into an agreement to merge the beverage division of Grupo Fomento Queretano into Coca-Cola FEMSA. Grupo Fomento Queretano's beverage division operates mainly in the Mexican state of Querétaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The merger agreement was approved by both Coca-Cola FEMSA's and Grupo Fomento Queretano's boards of directors, and is subject to the approval of the CFC and of the shareholders meetings of both companies. The transaction will involve the issuance of approximately 45.1 million new Coca-Cola FEMSA Series L Shares, and in addition Coca-Cola FEMSA will assume Ps. 1,221 million in net debt. This transaction is expected to be completed in the second quarter of 2012.

In February 2012, Coca-Cola FEMSA announced that it had entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition by Coca-Cola FEMSA of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. Both parties believe that Coca-Cola FEMSA's expertise and successful track record operating in fragmented markets and emerging economies could be effectively deployed in such territory, and contribute significantly toward expanding the penetration of, and consumer preference for, The Coca-Cola Company's brands in that market. This exclusivity agreement does not require either party to enter into any transaction, and there can be no assurances that a definitive agreement will be executed.

On February 23, 2012, a wholly-owned subsidiary of Mitsubishi Corporation, and Stichting Depositary PGGM Infrastructure Funds, a pension fund managed by PGGM, acquired the 45% interest held by FEMSA in the parent companies of the Mareña Renovables Wind Power Farm, a 396 megawatt late-stage wind energy project in

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the southeastern region of the State of Oaxaca. Certain subsidiaries of FEMSA, FEMSA Comercio and Coca-Cola FEMSA have entered into 20-year wind power supply agreements with the Mareña Renovables Wind Power Farm to purchase energy output produced by it. These agreements will remain in full force and effect. The sale of FEMSA's participation as an investor will result in a gain.

Changes in Mexican Financial Reporting Standards

Adoption of International Financial Reporting Standards for public companies

The CNBV has announced that, commencing in 2012, all Mexican public companies must report their financial information in accordance with IFRS. Since 2006, the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* (Mexican Board of Research and Development of Financial Reporting Standards) has been modifying Mexican FRS in order to ensure their convergence with IFRS. Starting on January 1, 2012, we are reporting our financial information in accordance with IFRS and will present financial information for 2011 on a comparable basis.

Effects of Changes in Economic Conditions

Our results from 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, 2011, 2010, and 2009, 60%, 62%, and 59%, respectively, of our total sales were attributable to Mexico. As a result, we have significant exposure to the economic conditions of certain countries, particularly those 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 has not changed significantly during the last five years and is expected to increase in future periods due to acquisitions.

The Mexican economy is gradually recovering from a downturn as a result of the impact of the global financial crisis on many emerging economies in 2009. In 2011, Mexican GDP expanded by approximately 3.9% compared to an expansion of 5.4% for the full year of 2010, according to INEGI. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 3.43% in 2012, as of the latest estimate, published on April 2, 2012. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

Our future results may be significantly affected by the general economic and financial conditions in the countries where we operate, including by levels of economic growth, by the devaluation of the local currency, by inflation and high interest rates or by political developments, and may result in lower demand for our products, lower real pricing or a shift to lower margin products. Because a large percentage of our costs are fixed costs, we may not be able to reduce such costs and expenses, and our profit margins may suffer as a result of downturns in the economy of each country.

The decrease in interest rates in Mexico in 2011 decreases our cost of Mexican peso-denominated variable interest rate indebtedness and could have a favorable effect on our financial position and results of operations during 2012.

Beginning in the fourth quarter of 2009 and through 2011, the exchange rate between the Mexican peso and the U.S. dollar fluctuated from a low of Ps. 11.51 per U.S. dollar, to a high of Ps. 14.25 per U.S. dollar. At December 30, 2011, the exchange rate (noon buying rate) was Ps. 13.9510 to US\$ 1.00. On March 30, 2012, the exchange rate was Ps. 12.8115 to US\$ 1.00. See "Item 3. Key Information—Exchange Rate Information." A depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar will increase our U.S. dollar-denominated debt obligations, which could negatively affect our financial position and results from 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 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 are carried out through extensive distribution networks, the principal fixed assets of which are warehouses and trucks and are designed to handle large volumes of beverages. Fixed costs represent an important proportion of the total distribution expense of Coca-Cola FEMSA. 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.

FEMSA Comercio operations result in a low margin business with relatively fixed costs. These two characteristics make FEMSA Comercio a business with an operating margin that might be affected more easily by a change in sales levels.

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:

Property, plant and equipment

Property, plant and equipment are depreciated over their estimated useful lives. The estimated useful lives are reviewed annually and 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. Depreciation is computed using the straight line method of accounting.

Where an item of property, plant and equipment is comprised of major components having different useful lives, these components are accounted for and depreciated as separate items (major components) of property, plant and equipment.

Imported assets are recorded using the exchange rate as of the acquisition date and are restated using the inflation factor of the country where the asset is acquired for inflationary economic environments.

We test depreciable long-lived assets for impairment at fair value when there are indicators of impairment and determine whether impairment exists, by first comparing the book value of the assets with their recoverable value based on undiscounted cash flows, and if such assets are not recoverable, then with their fair value, which is calculated considering their operating conditions and the future cash flows expected to be generated based on their estimated remaining useful life as determined by management.

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Returnable and non-returnable bottles are aggregated as part of property, plant and equipment. Returnable bottles are depreciated based on the straight-line method over acquisition cost. Coca-Cola FEMSA estimates depreciation rates considering returnable bottles useful lives.

We recorded returnable bottles and cases at acquisition cost and restated them applying inflation factors only when they form part of our operations in countries with an inflationary economic environment. For Coca-Cola FEMSA, breakage is expensed as it is incurred as part of depreciation. The annual calculated depreciation expense has been similar to the annual 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 presented as part of depreciation.

Valuation and impairment of intangible assets and goodwill

We identify all intangible assets associated with business acquisitions and investments in shares. 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. Intangible assets and goodwill identified in investments in shares are presented within the total investment in shares.

The intangible assets of indefinite life associated with business acquisitions are subject to annual impairment tests. As of December 31, 2011, 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. 62,822 million primarily as a result of the Panamco acquisition;
- Goodwill relating to Coca-Cola FEMSA acquisitions during 2011 that amounted to Ps. 5,214; and
- Other intangible assets with indefinite lives that amounted to Ps. 343 million.

We review annually the carrying value of our intangible assets with indefinite lives and goodwill for impairment based on recognized valuation techniques. While we believe that our estimates are reasonable, different assumptions regarding such estimates could materially affect our evaluations.

Investments in shares, including related goodwill, are subject to impairments testing whenever certain events or changes in circumstances occur that indicate that the carrying amount may exceed fair value. We recognize an impairment loss when it is considered to be other than a temporary loss. As of December 31, 2011, identified intangible assets and goodwill relating to our 20% economic interest in the Heineken Group amounted to €3,055 million (approximately US\$ 3,940 million) and €1,200 million (approximately US\$ 1,548 million), respectively.

Following our evaluations during 2011 and up to the date of this annual report, we do not have information which leads to a significant impairment of intangible assets with indefinite lives or of our investments in shares of affiliated companies. 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 may cause us to change our current assessment.

Employee benefits

Our employee benefits are comprised of obligations for 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 are determined by actuarial calculations and are dependent on our determination of certain assumptions used to estimate such amounts. We evaluate our assumptions at least annually.

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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 2011 annual labor liability expense, along with the impact on this expense of a 1% change in each assumed rate.

Assumptions 2011 ⁽¹⁾	Nominal Rates ⁽³⁾			Real Rates ⁽⁴⁾			Impact of Rate Changes ⁽²⁾	
	2011	2010	2009	2011	2010	2009	+1%	-1%
Mexican and Foreign Subsidiaries:								
Discount rate	7.6%	7.6%	8.2%	4.0%	4.0%	4.5%	Ps. (386)	Ps.567
Salary increase	4.8%	4.8%	5.1%	1.2%	1.2%	1.5%	419	(275)
Long-term asset return	9.0%	8.2%	8.2%	5.0%	3.6%	4.5%	(16)	17

(1) Calculated using a measurement date as of December 2011.

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

(3) For countries considered non-inflationary economic environments according to Mexican FRS.

(4) For countries considered inflationary economic environments according to Mexican FRS.

Income taxes

As we describe in Note 23 to our audited consolidated financial statements, the Mexican tax reform as effective in 2011 did not impact our tax result. However, the following are the most important changes pursuant to the Mexican tax reform as effective in 2010 that are applicable to recent and upcoming years: an increase in the VAT rate from 15% in 2009 to 16% in 2010 and future years; an increase in the special tax on production and services from 25% in 2009 to 26.5% in 2010 and future years; and an increase in the statutory income tax rate from 28% in 2009 to 30% for 2010, 2011 and 2012, with a reduction from 30% to 29% and 28% for 2013 and 2014, respectively. In addition, the Mexican tax reform as effective in 2010 requires that income tax payments related to consolidated tax benefits obtained since 1999 be paid during the succeeding five years beginning in the sixth year when tax benefits were used. See Note 23 C and D to our audited consolidated financial statements.

The *Impuesto Empresarial de Tasa Unica* (IETU) functions similarly to an alternative minimum corporate income tax, except that any amounts paid are not creditable against future income tax payments. Mexican taxpayers are now subject to the higher of the IETU or the income tax liability computed under Mexican Income Tax Law. The IETU is calculated on a cash-flow basis, the rate for 2009 was 17.0% and the rate for both 2010 and 2011 was 17.5%.

We have paid corporate income tax since IETU came into effect and, based on our financial projections estimated for our Mexican tax returns, we expect to continue paying corporate income tax in the future and do not expect to pay IETU, therefore we did not record deferred IETU. As such, the enactment of IETU did not impact our consolidated financial position or results from 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 tax assets for recoverability and/or payment, and establish a valuation allowance based on our judgment regarding historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. If these estimates and related assumptions change in the future, we may be required to record additional valuation allowances against our deferred tax assets, resulting in an impact in net income.

The statutory income tax rate in Mexico was 30% for each of 2011 and 2010, and 28% for 2009. The statutory income tax rate in Panama was 25%, 27.5% and 30%, respectively, for 2011, 2010 and 2009. The statutory income tax rates for 2011 in other countries in which we do business were: 31% in Guatemala; 30% in Nicaragua; 30% in Costa Rica; 33% in Colombia; 34% in Venezuela; 34% in Brazil; and 35% in Argentina. Tax loss carry-forwards may be applied to income tax over certain periods of time, varying by country as follows: in Mexico, 10 years; in Nicaragua, Costa Rica and Venezuela, 3 years; in Panama and Argentina, 5 years; in Colombia, tax losses may be carried forward for an indefinite period of time but are limited to 25% of taxable income for the relevant year; and in Brazil, tax losses may be carried forward for an indefinite period of time but cannot be restated and are limited to 30% of taxable income for the relevant year. We make judgments about the recoverability of tax loss carry-forward assets as described above.

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Indirect tax and legal contingencies

We are subject to various claims and contingencies related to indirect 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

We are required 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 whether the instrument provides a hedge and is designated as such, 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

As described in Note 28 to our audited consolidated financial statements, we are adopting IFRS for the preparation of our financial information beginning in 2012. Pursuant to current SEC reporting requirements, foreign private issuers may provide in their SEC filings financial statements prepared in accordance with IFRS, without a reconciliation to U.S. GAAP.

The consolidated financial statements to be issued by us for the year ending December 31, 2012 will be our first annual financial statements that comply with IFRS. Our IFRS transition date is January 1, 2011, and therefore, the year ended December 31, 2011 will be the comparative period to be covered. IFRS 1, "First-Time Adoption of International Financial Reporting Standards" (which we refer to as IFRS 1), sets forth mandatory exceptions and allows certain optional exemptions to the complete retrospective application of IFRS.

Mandatory Exceptions

We have applied the following mandatory exceptions to retrospective application of IFRS, effective as of our IFRS transition date:

Accounting Estimates

Estimates prepared under IFRS as of January 1, 2011 are consistent with the estimates recognized under Mexican FRS as of the same date, unless we are required to adjust such estimates to agree with IFRS.

Derecognition of Financial Assets and Liabilities

We applied the derecognition rules of IAS 39, "Financial Instruments: Recognition and Measurement" (which we refer to as IAS 39) prospectively for transactions occurring on or after our IFRS transition date.

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Hedge Accounting

As of our IFRS transition date, we have measured at fair value all derivative financial instruments and hedging relationships designated and documented effectively as accounting hedges, as required by IAS 39, which is consistent with the treatment under Mexican FRS. As a result, there was no impact in our consolidated financial statements due to the application of this exception.

Non-controlling Interest

We have applied the requirements of IAS 27, “Consolidated and Separate Financial Statements” (which we refer to as IAS 27) related to non-controlling interests prospectively beginning on our IFRS transition date.

Optional Exemptions

We have elected the following optional exemptions to retrospective application of IFRS, effective as of our IFRS transition date:

Business Combinations and Acquisitions of Associates and Joint Ventures

According to IFRS 1, an entity may elect not to apply IFRS 3, “Business Combinations” retrospectively to acquisitions made prior to the transition date to IFRS.

The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures.

We have adopted this exemption and did not amend our business acquisitions or investments in associates and joint ventures prior to our IFRS transition date and we did not remeasure the values determined at the acquisition dates, including the amount of previously recognized goodwill in past acquisitions.

Share-based Payments

We have share-based plans, which we pay to our qualifying employees based on our own shares and those of our subsidiary, Coca-Cola FEMSA. Management decided to apply the optional exemptions established in IFRS 1, whereas we did not apply IFRS 2, “Share-based Payment” (which we refer to as IFRS 2): (i) to the equity instruments granted before November 7, 2002, (ii) to equity instruments granted after November 7, 2002 and that were earned before the latter of (a) our IFRS transition date and (b) January 1, 2005 and (iii) liabilities related to share-based payment transactions that were settled before our IFRS transition date.

Deemed Cost

An entity may individually elect to measure an item of its property, plant and equipment at the transition date to IFRS at its fair value and use that fair value as its deemed cost at that date. In addition, a first-time adopter may elect to use a previous generally accepted accounting principles revaluation of an item of property, plant and equipment at, or before, the transition date to IFRS as deemed cost at the date of the revaluation, if the revaluation was, at such date of the revaluation, broadly comparable to either (i) fair value, or (ii) cost or depreciated cost in accordance with IFRS and adjusted to reflect changes in a general or specific price index.

We have presented both our property, plant and equipment and our intangible assets at IFRS historical cost in all countries. In Venezuela, this IFRS historical cost represents actual historical cost in the year of acquisition, indexed for inflation in a hyperinflationary economy based on the provisions of IAS 29, “Hyperinflationary Economies” (which we refer to as IAS 29).

Cumulative Translation Effect

A first-time adopter is neither required to recognize translation differences and accumulate these in a separate component of equity, nor on a subsequent disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation from equity to profit or loss as part of the gain or loss on disposal that would have existed at the IFRS transition date.

We applied this exemption and consequently we reclassified the accumulated translation effect recorded under Mexican FRS to retained earnings and, beginning January 1, 2011, we calculate the translation effect of our foreign operations prospectively according to IAS 21, "The Effects of Changes in Foreign Exchange Rates."

Borrowing Costs

We applied the IFRS 1 exemption related to borrowing costs incurred for qualifying assets existing at the IFRS transition date, based on our similar Mexican FRS accounting policy, and beginning January 1, 2011 we capitalize eligible borrowing costs in accordance with IAS 23, "Borrowing Costs" (which we refer to as IAS 23).

Recording Effects of the Transition from Mexican FRS to IFRS

The following disclosures provide a qualitative description of the most significant preliminary effects from the transition to IFRS determined as of the date of the issuance of our consolidated financial statements.

Inflation Effects

According to Mexican FRS, the Mexican peso ceased to be the currency of an inflationary economy on December 31, 2007, as the three years' cumulative inflation as of such date did not exceed 26%.

According to IAS 29, the last hyperinflationary period for the Mexican peso was in 1998. As a result, we have eliminated the cumulative inflation recognized within long-lived assets and contributed capital for our Mexican operations, based on Mexican FRS during the years 1999 through 2007, which were not deemed hyperinflationary for IFRS purposes.

For our foreign operations, the cumulative inflation from the acquisition date was eliminated (except in the case of Venezuela, which was deemed to be a hyperinflationary economy) from the date on which we began to consolidate them.

Employee Benefits

According to NIF D-3, a severance provision and the corresponding expenditure must be recognized based on the experience of an entity in terminating the employment relationship before the retirement date, or if the entity deems to pay benefits as a result of an offer made to employees to encourage a voluntary termination. For IFRS purposes, this provision is only recorded pursuant to IAS 19 (Revised 2011), "Employee Benefits" (which we refer to as IAS 19 (Revised 2011)), at the moment the entity has a demonstrable commitment to end the relationship with the employee or to make a bid to encourage voluntary retirement. This is evidenced by a formal plan that describes the characteristics of the termination of employment. Accordingly, at our IFRS transition date, we derecognized our severance indemnity recorded under Mexican FRS against retained earnings given that no such formal plan exists. A formal plan was not required for recording under Mexican FRS.

IAS 19 (Revised 2011), early adopted by us, eliminates the use of the "corridor" method, which defers the actuarial gains/losses and requires that such gains/losses be recorded directly within other comprehensive income in each reporting period. The standard also eliminates deferral of past service costs and requires entities to record them in comprehensive income in each reporting period. These requirements increased our liability for employee benefits with a corresponding reduction in retained earnings at our IFRS transition date.

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Embedded Derivatives

For Mexican FRS purposes, we recorded embedded derivatives for agreements denominated in foreign currency. Pursuant to the principles set forth in IAS 39, there is an exception for embedded derivatives on those contracts that are denominated in certain foreign currencies if, for example, the foreign currency is commonly used in the economic environment in which the transaction takes place. We concluded that all of our embedded derivatives fell within the scope of this exception.

Therefore, at our IFRS transition date, we derecognized all embedded derivatives recognized under Mexican FRS.

Stock Bonus Program

Under NIF D-3, we recognized our stock bonus program plan offered to certain key executives as a defined contribution plan. IFRS require that such share-based payment plans be recorded under the principles set forth in IFRS 2. The most significant difference for changing the accounting treatment is related to the period during which compensation expense is recognized, which under NIF D-3 means the total amount of the bonus is recorded in the period in which it was granted, while in IFRS 2 it shall be recognized over the vesting period of such awards.

Additionally, the trust that holds the equity shares allocated to executives is considered to hold plan assets and is not consolidated under Mexican FRS. However, for IFRS Standing Interpretations Committee Interpretation (SIC) 12, "Consolidation – Special Purpose Entities," we will consolidate the trust and reflect our own shares in treasury stock and reduce the non-controlling interest for Coca-Cola FEMSA shares held by the trust.

Deferred Income Taxes

The IFRS adjustments recognized by us had an impact on the calculation of deferred income taxes according to the requirements established by IAS 12, "Income Taxes" (IAS 12).

Furthermore, we derecognized a deferred liability recorded in the exchange of shares of FEMSA Cerveza with the Heineken Group. IFRS have an exception for recognition of a deferred tax liability for an investment in a subsidiary if the parent is able to control the timing of the reversal and it is probable that it will not reverse in the foreseeable future.

Retained Earnings

All the adjustments arising from our conversion to IFRS as of the transition date were recorded against retained earnings.

Other Differences in Presentation and Disclosures in the Financial Statements

Generally, IFRS disclosure requirements are more extensive than those of Mexican FRS, which will result in increased disclosures about accounting policies, significant judgments and estimates, financial instruments and management risks, among others. We will restructure our income statement under IFRS to comply with IAS 1, "Presentation of Financial Statements" (IAS 1). In addition, there may be some other differences in presentation.

There are other differences between Mexican FRS and IFRS. However, we consider the differences mentioned above to describe the significant effects.

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As a result of the transition to IFRS, the effects as of January 1, 2011 on the principal items of a condensed statement of financial position are described as follows:

	<u>Mexican FRS</u>	<u>IFRS Transition Effects</u>	<u>Preliminary IFRS</u>
Current assets	Ps. 51,460	Ps. (47)	Ps. 51,413
Non-current assets	172,118	(10,078)	162,040
Total assets	223,578	(10,125)	213,453
Current liabilities	30,516	(254)	30,262
Non-current liabilities	40,049	(10,012)	30,037
Total liabilities	70,565	(10,266)	60,299
Total stockholders' equity	Ps. 153,013	Ps. 141	Ps. 153,154

The information presented above has been prepared in accordance with the standards and interpretations issued and in effect or issued and early adopted by us at the date of preparation of our consolidated financial statements (see Note 28 B to our consolidated financial statements). The standards and interpretations that are applicable at December 31, 2012, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing our Mexican FRS consolidated financial statements as of December 31, 2011. Additionally, the IFRS accounting policies selected by us may change as a result of changes in the economic environment or industry trends that are observable after the issuance of our Mexican FRS consolidated financial statements. The information presented herein does not intend to comply with IFRS, and it should be noted that under IFRS, only one set of financial statements comprising the statements of financial position, comprehensive income, changes in stockholders' equity and cash flows, together with comparative information and explanatory notes, can provide a fair presentation of our financial position, results of operations and cash flows.

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The following table sets forth our consolidated income statement under Mexican FRS for the years ended December 31, 2011, 2010, and 2009:

	Year Ended December 31,			
	2011 ⁽¹⁾	2011	2010	2009
	(in millions of U.S. dollars and Mexican pesos)			
Net sales	\$14,470	Ps.201,867	Ps.168,376	Ps.158,503
Other operating revenues	84	1,177	1,326	1,748
Total revenues	14,554	203,044	169,702	160,251
Cost of sales	8,459	118,009	98,732	92,313
Gross profit	6,095	85,035	70,970	67,938
Operating expenses:				
Administrative	591	8,249	7,766	7,835
Selling	3,576	49,882	40,675	38,973
Total operating expenses	4,167	58,131	48,441	46,808
Income from operations	1,928	26,904	22,529	21,130
Other expenses, net	(209)	(2,917)	(282)	(1,877)
Interest expense	(210)	(2,934)	(3,265)	(4,011)
Interest income	72	999	1,104	1,205
Interest expense, net	(138)	(1,935)	(2,161)	(2,806)
Foreign exchange gain (loss), net	84	1,165	(614)	(431)
Gain on monetary position, net	9	146	410	486
Market value (loss) gain on ineffective portion of derivative financial instruments	(11)	(159)	212	124
Comprehensive financing result	(56)	(783)	(2,153)	(2,627)
Equity method of associates	370	5,167	3,538	132
Income before income taxes	2,033	28,371	23,632	16,758
Income taxes	550	7,687	5,671	4,959
Consolidated net income before discontinued operations	1,483	20,684	17,961	11,799
Income from the exchange of shares with Heineken, net	—	—	26,623	—
Net income from discontinued operations	—	—	706	3,283
Consolidated net income	1,483	20,684	45,290	15,082
Net controlling interest income	1,085	15,133	40,251	9,908
Net non-controlling interest income	398	5,551	5,039	5,174
Consolidated net income	1,483	20,684	45,290	15,082

(1) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.9510 to US\$ 1.00, provided solely for the convenience of the reader.

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The following table sets forth certain operating results by reportable segment under Mexican FRS for each of our segments for the years ended December 31, 2011, 2010, and 2009. Due to the discontinued operation of FEMSA Cerveza it is not considered as a reportable segment.

	Year Ended December 31,				
	2011	2010	Percentage Growth 2009	2011 vs. 2010	2010 vs. 2009
(in millions of Mexican pesos at December 31, 2010, except for percentages)					
Net sales					
Coca-Cola FEMSA	Ps.124,066	Ps.102,988	Ps.102,229	20.5%	0.7%
FEMSA Comercio	74,112	62,259	53,549	19.0%	16.3%
CB Equity ⁽¹⁾	—	—	N/a	N/a	N/a
Total revenues					
Coca-Cola FEMSA	124,715	103,456	102,767	20.5%	0.7%
FEMSA Comercio	74,112	62,259	53,549	19.0%	16.3%
CB Equity	—	—	N/a	N/a	N/a
Cost of sales					
Coca-Cola FEMSA	67,488	55,534	54,952	21.5%	1.1%
FEMSA Comercio	48,636	41,220	35,825	18.0%	15.1%
CB Equity	—	—	N/a	N/a	N/a
Gross profit					
Coca-Cola FEMSA	57,227	47,922	47,815	19.4%	0.2%
FEMSA Comercio	25,476	21,039	17,724	21.1%	18.7%
CB Equity	—	—	N/a	N/a	N/a
Income from operations					
Coca-Cola FEMSA	20,152	17,079	15,835	18.0%	7.9%
FEMSA Comercio	6,276	5,200	4,457	20.7%	16.7%
CB Equity	(7)	(3)	N/a	(133.0)%	N/a
Depreciation⁽²⁾					
Coca-Cola FEMSA	4,163	3,333	3,472	24.9%	(4.0)%
FEMSA Comercio	1,175	990	819	18.7%	20.9%
CB Equity	—	—	N/a	N/a	N/a
Gross margin⁽³⁾⁽⁴⁾					
Coca-Cola FEMSA	45.9%	46.3%	46.5%	(0.4) p.p.	(0.2) p.p.
FEMSA Comercio	34.4%	33.8%	33.1%	0.6 p.p.	0.7 p.p.
CB Equity	—	N/a	N/a	N/a	N/a
Operating margin⁽⁴⁾⁽⁵⁾					
Coca-Cola FEMSA	16.2%	16.5%	15.4%	(0.3) p.p.	1.1 p.p.
FEMSA Comercio	8.5%	8.4%	8.3%	0.1 p.p.	0.1 p.p.
CB Equity	N/a	N/a	N/a	N/a.	N/a

(1) CB Equity holds Heineken N.V. and Heineken Holding N.V. Shares.

(2) Includes breakage of bottles.

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

(4) As used herein, p.p. refers to a percentage point increase (or decrease), contrasted with a straight percentage increase (or decrease).

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

Results from operations for the Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

FEMSA Consolidated

Under Mexican FRS, we reclassified our financial statements to reflect FEMSA Cerveza as a discontinued operation.

Total Revenues

FEMSA's consolidated total revenues increased 19.6% to Ps. 203,044 million in 2011 compared to Ps. 169,702 million in 2010. All of FEMSA's operations—beverages and retail—contributed positively to this revenue growth. Coca-Cola FEMSA's total revenues increased 20.5% to Ps. 124,715 million, driven by double-digit total revenue growth in both of its divisions and the integration of the beverage divisions of Grupo Tampico and Grupo CIMSA in Mexico. FEMSA Comercio's revenues increased 19.0% to Ps. 74,112 million, mainly driven by the opening of 1,135 net new stores combined with an average increase of 9.2% in same-store sales.

Gross Profit

Consolidated gross profit increased 19.8% to Ps. 85,035 million in 2011 compared to Ps. 70,970 million in 2010, driven by Coca-Cola FEMSA. Gross margin increased by 0.1 percentage points, from 41.8% of consolidated total revenues in 2010 to 41.9% in 2011.

Income from Operations

Consolidated operating expenses increased 20.0% to Ps. 58,131 million in 2011 compared to Ps. 48,441 million in 2010. The majority of this increase resulted from Coca-Cola FEMSA and additional operating expenses at FEMSA Comercio, resulting from accelerated store expansion. As a percentage of total revenues, consolidated operating expenses increased from 28.5% in 2010 to 28.6% in 2011.

Consolidated administrative expenses increased 6.2% to Ps. 8,249 million in 2011 compared to Ps. 7,766 million in 2010. As a percentage of total revenues, consolidated administrative expenses decreased from 4.6% in 2010 to 4.1% in 2011.

Consolidated selling expenses increased 22.6% to Ps. 49,882 million in 2011 as compared to Ps. 40,675 million in 2010. This increase was attributable to greater selling expenses at Coca-Cola FEMSA and FEMSA Comercio. As a percentage of total revenues, selling expenses increased 0.5 percentage points, from 24.0% in 2010 to 24.5% in 2011.

Consolidated income from operations increased 19.4% to Ps. 26,904 million in 2011 as compared to Ps. 22,529 million in 2010, driven by Coca-Cola FEMSA and FEMSA Comercio. Consolidated operating margin remained stable at 13.3% as a percentage of 2011 consolidated total revenues.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide 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 20.5% to Ps. 124,715 million in 2011, compared to Ps. 103,456 million in 2010 as a result of double-digit total revenue growth in its South America and Mexico and Central America divisions and the integration of the beverage divisions of Grupo Tampico and Grupo CIMSA in its Mexican territories during the fourth quarter of 2011. Excluding the integration of the beverage divisions of Grupo

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Tampico and Grupo CIMSA in Mexico, total revenues grew approximately 19% in 2011. On a currency neutral basis and excluding the recently merged franchise territories in Mexico, total revenues increased approximately 16% in 2011. Consolidated average price per unit case increased 13.8%, reaching Ps. 45.38 in 2011 as compared to Ps. 39.89 in 2010.

Consolidated total sales volume reached 2,648.6 million unit cases in 2011, compared to 2,499.5 million unit cases in 2010, an increase of 6.0%. Volume growth resulted from increases in sparkling beverages, which accounted for approximately 80% of incremental volumes, driven by the *Coca-Cola* brand. The still beverage category, mainly driven by the Jugos del Valle line of business in Mexico, Brazil and Venezuela, and *Hi-C* orangeade and the *Cepita* juice brand in Argentina contributed with approximately 15% of the incremental volumes, and the bottled water category represented the balance. Excluding the integration of the beverage divisions of Grupo Tampico and Grupo CIMSA in Mexico, volumes grew 4.0% to 2,599.7 million unit cases.

Gross Profit

Cost of sales increased 21.5% to Ps. 67,488 million in 2011 compared to Ps. 55,534 million in 2010, as a result of higher sweetener and PET costs across Coca-Cola FEMSA's operations, which were partially offset by the appreciation of the average exchange rates of the Brazilian real, the Colombian peso and the Mexican peso as applied to Coca-Cola FEMSA's U.S. dollar-denominated raw material costs. Gross profit increased 19.4% to Ps. 57,227 million in 2011, as compared to 2010. Coca-Cola FEMSA's gross margin decreased 0.4 percentage points to 45.9% in 2011.

Operating Expenses

Operating expenses increased 20.2% to Ps. 37,075 million in 2011. As a percentage of total revenues, operating expenses remained flat at 29.7% in 2011 as compared to 29.8% in 2010.

Income from Operations

Income from operations increased 18.0% to Ps. 20,152 million in 2011, as compared to Ps. 17,079 million in 2010 driven by Coca-Cola FEMSA's South America division. Operating margin was 16.2% in 2011, a contraction of 0.3 percentage points as compared to 2010.

FEMSA Comercio

Total Revenues

FEMSA Comercio total revenues increased 19.0% to Ps. 74,112 million in 2011 compared to Ps. 62,259 million in 2010, primarily as a result of the opening of 1,135 net new stores during 2011, together with an average increase in same-store sales of 9.2%. As of December 31, 2011, there were a total of 9,561 stores in Mexico. FEMSA Comercio same-store sales increased an average of 9.2% compared to 2010, driven by a 4.6% increase in store traffic and 4.3% in average ticket.

Gross Profit

Cost of sales increased 18.0% to Ps. 48,636 million in 2011, below total revenue growth, compared with Ps. 41,220 million in 2010. As a result, gross profit reached Ps. 25,476 million in 2011, which represented a 21.1% increase from 2010. Gross margin expanded 0.6 percentage points to reach 34.4% of total revenues. This increase reflects a positive mix shift due to the growth of higher margin categories and a more effective collaboration and execution with key supplier partners combined with a more efficient use of promotion-related marketing resources.

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Income from Operations

Operating expenses increased 21.2% to Ps. 19,200 million in 2011 compared with Ps. 15,839 million in 2010, largely driven by the growing number of stores as well as by incremental expenses, such as those for the strengthening of FEMSA Comercio's organizational structure, mainly IT-related, and targeted marketing programs.

Administrative expenses increased 21.2% to Ps. 1,438 million in 2011, compared with Ps. 1,186 million in 2010; however, as a percentage of sales, they remained stable at 1.9%.

Selling expenses increased 21.2% to Ps. 17,762 million in 2011 compared with Ps. 14,653 million in 2010.

Income from operations increased 20.7% to Ps. 6,276 million in 2011 compared with Ps. 5,200 million in 2010, resulting in an operating margin expansion of 0.1 percentage points to 8.5% as a percentage of total revenues for the year, compared with 8.4% in 2010.

FEMSA Consolidated—Net Income

Other Expenses

Other expenses include employee profit sharing, which we refer to as PTU, impairment of long-lived assets, contingencies, as well as their subsequent interest and penalties, severance payments derived from restructuring programs and all other non-recurring expenses related to activities different from the main activities of the Company and that are not recognized as part of the comprehensive financing result. During 2011, other expenses increased to Ps. 2,917 million from Ps. 282 million in 2010, largely driven by the net effect of non-recurring items. Such items include the income in 2010 from the sale of our flexible packaging business and the sale of the Mundet brand to The Coca-Cola Company.

Comprehensive Financing Result

Comprehensive financing result decreased 63.6% in 2011 to Ps. 783 million, reflecting an improvement due to a foreign exchange gain (of Ps. 1,165 million) in 2011 driven by the effect of the devaluation of the Mexican peso on the U.S. dollar-denominated component of our cash position as compared to a loss of Ps. 614 million in 2010.

Equity Method of Associates

Equity Method of Associates increased 46.0% to Ps. 5,167 million in 2011 compared with Ps. 3,538 million in 2010, mainly driven by the inclusion of the full year of our 20% interest in Heineken's net income in 2011, compared to the inclusion of eight months of our 20% interest in Heineken's 2010 net income.

Income Taxes

Our accounting provision for income taxes in 2011 was Ps. 7,687 million, as compared to Ps. 5,671 million in 2010, resulting in an effective tax rate of 27.1% in 2011, as compared to 24.0% in 2010.

Consolidated Net Income before Discontinued Operations

Net income from continuing operations increased 15.2% to Ps. 20,684 million in 2011 compared to Ps. 17,961 million in 2010. These results were driven by the growth in income from operations, which more than compensated for an increase in the other expenses line largely driven by the net effect of non-recurring items. These include the tough comparison base caused by income from the sale of our flexible packaging business and the sale of the Mundet brand to The Coca-Cola Company, and a loss on disposal of long-lived assets in 2011.

Consolidated Net Income

Consolidated net income was Ps. 20,684 million in 2011 compared to Ps. 45,290 million in 2010, a difference mainly attributable to the one-time Heineken transaction-related gain recorded during 2010 (of Ps. 26,623 million). Net controlling interest amounted to Ps. 15,133 million in 2011 compared to Ps. 40,251 million in 2010, which difference was also due principally to the effect in 2010 of the Heineken transaction. Net controlling interest in 2011 per FEMSA Unit⁽¹⁾ was Ps. 4.23 (US\$3.03 per ADS).

¹ FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B Share, two Series D-B Shares and two Series D-L Shares. Each FEMSA B Unit is comprised of five Series B Shares. The number of FEMSA Units outstanding as of December 31, 2011 was 3,578,226,270, which is equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by five.

Results from operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

FEMSA Consolidated

Under Mexican FRS, we reclassified our financial statements to reflect FEMSA Cerveza as a discontinued operation.

Total Revenues

FEMSA's consolidated total revenues increased 5.9% to Ps. 169,702 million in 2010 compared to Ps. 160,251 million in 2009. All of FEMSA's beverage and retail operations contributed positively to this revenue growth. Coca-Cola FEMSA's total revenues increased 0.7% to Ps. 103,456 million, driven by the revenue growth in its Mercosur and Mexico divisions. FEMSA Comercio's revenues increased 16.3% to Ps. 62,259 million, mainly driven by the opening of 1,092 net new stores combined with an average increase of 5.2% in same-store sales.

Gross Profit

Consolidated gross profit increased 4.5% to Ps. 70,970 million in 2010 compared to Ps. 67,938 million in 2009, driven by FEMSA Comercio. Gross margin contracted by 0.6 percentage points, from 42.4% of consolidated total revenues in 2009 to 41.8% in 2010 as the faster growth of lower-margin FEMSA Comercio tends to compress FEMSA's consolidated margins over time. Gross margin improvement at FEMSA Comercio partially offset raw-material cost pressures at Coca-Cola FEMSA.

Income from Operations

Consolidated operating expenses increased 3.5% to Ps. 48,441 million in 2010 compared to Ps. 46,808 million in 2009. The majority of this increase resulted from additional operating expenses at FEMSA Comercio, due to an accelerated store expansion. As a percentage of total revenues, consolidated operating expenses decreased from 29.2% in 2009 to 28.5% in 2010.

Consolidated administrative expenses decreased 0.9% to Ps. 7,766 million in 2010 compared to Ps. 7,835 million in 2009. As a percentage of total revenues, consolidated administrative expenses remained stable at 4.6% in 2010 compared with 4.9% in 2009.

Consolidated selling expenses increased 4.4% to Ps. 40,675 million in 2010 as compared to Ps. 38,973 million in 2009. This increase was attributable to FEMSA Comercio. As a percentage of total revenues, selling expenses decreased 0.3 percentage points from 24.3% in 2009 to 24.0% in 2010.

Consolidated income from operations increased 6.6% to Ps. 22,529 million in 2010 as compared to Ps. 21,130 million in 2009. This increase was driven by the results of Coca-Cola FEMSA and FEMSA Comercio. Excluding one-time Heineken Transaction-related expenses, consolidated income from operations would have grown 8.7% in that period. Consolidated operating margin increased 0.1 percentage points from 13.2% in 2009, to 13.3% as a percentage of 2010 consolidated total revenues.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide 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 0.7% to Ps. 103,456 million in 2010, compared to Ps. 102,767 million in 2009 as a result of revenue growth in Coca-Cola FEMSA's Mercosur and Mexico divisions and despite the devaluation of the Venezuelan bolívar, which affected our revenues in that country. On a currency-neutral basis and excluding the acquisition of Brisa in Colombia, total revenues increased approximately 15% in 2010.

Consolidated average price per unit case decreased 2.6%, reaching Ps. 39.89 in 2010 as compared to Ps. 40.95 in 2009, reflecting the devaluation in the Venezuelan bolívar.

Consolidated total sales volume reached 2,499.5 million unit cases in 2010, compared to 2,428.6 million unit cases in 2009, an increase of 2.9%. Volume growth resulted largely from increases in sparkling beverages, which grew 2.6% and accounted for more than 70% of incremental volumes, mainly driven by the Coca-Cola brand. The still beverage category, mainly driven by the Jugos del Valle line of business in Coca-Cola FEMSA's key operations, contributed with approximately 20% of the incremental volumes and the bottled water category represented the balance. Excluding the acquisitions of Brisa, total sales volume increased 1.6% to reach 2,479.6 million unit cases.

Gross Profit

Cost of sales increased 1.1% to Ps. 55,534 million in 2010 compared to Ps. 54,952 million in 2009, as a result of increases in the cost of sweeteners of our operations, which were partially offset by the appreciation of the Brazilian real, the Colombian peso and the Mexican peso as applied to Coca-Cola FEMSA's U.S. dollar-denominated raw material costs. Gross profit increased 0.2% to Ps. 47,922 million in 2010, as compared to 2009, despite the devaluation of the Venezuelan bolívar; Coca-Cola FEMSA's gross margin decreased 0.2 percentage points to 46.3% in 2010.

Operating Expenses

Operating expenses decreased 3.6% to Ps. 30,843 million in 2010. As a percentage of sales, operating expenses decreased to 29.8% in 2010 from 31.1% in 2009.

Income from Operations

Income from operations increased 7.9% to Ps. 17,079 million in 2010, as compared to Ps. 15,835 million in 2009 driven by Coca-Cola FEMSA's Mercosur and Latincentro divisions. Operating margin was 16.5% in 2010, an expansion of 1.1 percentage points as compared to 2009.

FEMSA Comercio

Total Revenues

FEMSA Comercio total revenues increased 16.3% to Ps. 62,259 million in 2010 compared to Ps. 53,549 million in 2009, primarily as a result of the opening of 1,092 net new stores during 2010, combined with an average increase of same-store sales of 5.2%. As of December 31, 2010, there were a total of 8,409 stores in Mexico and 17 stores in Colombia. FEMSA Comercio same-store sales increased an average of 5.2% compared to 2009, driven by a 3.9% increase in store traffic and 1.3% in average ticket. As was the case in 2009, the same-store sales, ticket and traffic dynamics continued to reflect the effects from the continued mix shift from physical prepaid wireless air-time cards to the sale of electronic air-time, for which only the margin is recorded, rather than the full amount of the electronic recharge.

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Gross Profit

Cost of sales increased 15.1% to Ps. 41,220 million in 2010, below total revenue growth, compared with Ps. 35,825 million in 2009. As a result, gross profit reached Ps. 21,039 million in 2010, which represented an 18.7% increase from 2009. Gross margin expanded 0.7 percentage points to reach 33.8% of total revenues. This increase reflects a positive mix shift due to (i) the growth of higher margin categories, (ii) more effective collaboration and execution with FEMSA Comercio's key supplier partners and more efficient use of promotion-related marketing resources, and (iii) to a lesser extent, the continued mix shift toward electronic air-time recharges as described above.

Income from Operations

Operating expenses increased 19.4% to Ps. 15,839 million in 2010 compared with Ps. 13,267 million in 2009, largely driven by the growing number of stores as well as by incremental expenses such as (i) higher utility tariffs at the store level and (ii) the strengthening of FEMSA Comercio's organizational structure, mainly IT-related, which was deferred in 2009 in response to the challenging economic environment that prevailed in Mexico at the time.

Administrative expenses increased 23.7% to Ps. 1,186 million in 2010, compared with Ps. 959 million in 2009, however, as a percentage of sales remained stable at 1.9%.

Selling expenses increased 19.1% to Ps. 14,653 in 2010 compared with Ps. 12,308 million in 2009. Income from operations increased 16.7% to Ps. 5,200 million in 2010 compared with Ps. 4,457 million in 2009, resulting in an operating margin expansion of 10 basis points to 8.4% as a percentage of total revenues for the year, compared with 8.3% in 2009.

FEMSA Consolidated—Net Income

Other Expenses

Other expenses include employee profit sharing, which we refer to as PTU, impairment of long-lived assets, contingencies, as well as their subsequent interest and penalties, severance payments derived from restructuring programs and all other non-recurring expenses related to activities different from the main activities of the Company and that are not recognized as part of the comprehensive financing result. During 2010, other expenses contracted to Ps. 282 million from Ps. 1,877 million in 2009.

Comprehensive Financing Result

Comprehensive financing result decreased 18.0% in 2010 to Ps. 2,153 million, reflecting an improvement over the low comparison base of 2009, driven by lower interest expenses.

Income Taxes

Our accounting provision for income taxes in 2010 was Ps. 5,671 million compared to Ps. 4,959 million in 2009, resulting in an effective tax rate of 24.0% in 2010 as compared with 29.6% in 2009 as the inclusion of the participation in Heineken's 2010 net income is shown net of taxes.

Consolidated Net Income before Discontinued Operations

Net income from continuing operations increased 52.2% to Ps. 17,961 million in 2010 compared to Ps. 11,799 million in 2009. These results were driven by the combination of (i) the inclusion of FEMSA's 20% participation in the last eight months of Heineken's 2010 net income, (ii) growth in income from operations, and (iii) a reduction in the other expenses line.

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Consolidated Net Income

Net consolidated income reached Ps. 45,290 million in 2010 compared to Ps. 15,082 million in 2009, driven by (i) the one-time Heineken transaction-related gain and (ii) a double-digit increase in FEMSA's net income from continuing operations.

Net controlling interest amounted to Ps. 40,251 million in 2010 compared to Ps. 9,908 million in 2009. Net controlling interest in 2010 per FEMSA Unit⁽²⁾ was Ps. 11.25 (US\$ 9.08 per ADS).

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, 2011, 76.9% of our outstanding consolidated total 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.

Our principal source of liquidity has generally been cash generated from our operations. We have traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA and FEMSA Comercio are on a cash or short-term credit basis, and FEMSA Comercio's OXXO stores are able to finance a significant 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 sources and uses of cash for the years ended December 31, 2011, 2010 and 2009, from our consolidated statement of cash flows:

**Principal Sources and Uses of Cash
of Continuing Operations
Years ended December 31, 2011, 2010 and 2009
(in millions of Mexican pesos)⁽¹⁾**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net cash flows provided by operating activities	Ps.22,244	Ps.17,802	Ps.22,744
Net cash flows (used in) provided by investing activities ⁽²⁾	(18,090)	6,178	(11,376)
Net cash flows used in financing activities ⁽³⁾	(6,922)	(10,496)	(7,889)
Dividends paid	(6,625)	(3,813)	(2,246)

(1) As of April 30, 2010 FEMSA no longer controls FEMSA Cerveza. As a result, principal sources and uses of cash of discontinued operations are presented in a separate line in the consolidated statements of cash flows (see "Item 18. Financial Statements").

(2) Includes net investments in property, plant and equipment, investment in shares and other assets.

(3) Includes dividends declared and paid.

² FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B share, two Series D-B shares and two Series D-L shares. Each FEMSA B Unit is comprised of five Series B shares. The number of FEMSA Units outstanding as of December 31, 2010 was 3,578,226,270, which is equivalent to the total number of FEMSA shares outstanding as of the same date, divided by five.

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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.

Our consolidated total indebtedness as of December 31, 2011, was Ps. 29,604 million compared to Ps. 25,506 million as of December 31, 2010. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 5,573 million and Ps. 24,031 million, respectively, as of December 31, 2011, as compared to Ps. 3,303 million and Ps. 22,203 million, respectively, as of December 31, 2010. Cash and cash equivalents were Ps. 26,329 million as of December 31, 2011, as compared to Ps. 27,097 million as of December 31, 2010.

We believe that our sources of liquidity as of December 31, 2011, were adequate for the conduct of our sub-holding companies' businesses and that we will have sufficient working capital available to meet our expenditure demands and financing needs in 2012 and in the following years.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

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Contractual Obligations

The table below sets forth our contractual obligations as of December 31, 2011.

	Maturity				Total
	Less than 1 year	1 - 3 years	3 - 5 years	In excess of 5 years	
(in millions of Mexican pesos)					
Long-Term Debt					
Mexican pesos	Ps.3,067	Ps.5,158	Ps.5,325	Ps.5,837	Ps.19,387
Brazilian reais	9	30	24	36	99
Colombian pesos	935	—	—	—	935
U.S. dollars	42	209	—	6,990	7,241
Argentine pesos	644	81	—	—	725
Capital Leases					
Colombian pesos	205	181	—	—	386
Brazilian reais	33	82	78	—	193
Interest payments⁽¹⁾					
Mexican pesos	1,042	1,690	781	795	4,309
Brazilian reais	22	28	9	4	62
Colombian pesos	53	10	—	—	63
U.S. dollars	326	647	646	1,023	2,642
Argentine pesos	86	2	—	—	88
Interest rate swaps and cross currency swaps⁽²⁾					
Mexican pesos	887	1,516	1,011	694	4,109
Brazilian reais	22	28	10	2	62
Colombian pesos	53	12	—	—	65
U.S. dollars	325	648	646	646	2,266
Argentine pesos	86	13	—	—	99
Operating leases					
Mexican pesos	2,370	4,380	3,914	11,324	21,988
U.S. dollars	113	210	873	—	1,196
Others	203	187	18	—	408
Commodity price contracts					
U.S. dollars	427	327	—	—	754
Expected benefits to be paid for pension plans, seniority premiums, post-retirement medical benefits and severance indemnities					
	579	759	682	1,739	3,759
Other long-term liabilities⁽³⁾					
	—	—	—	4,760	4,760

- (1) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2011 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. 13.9787 per US\$ 1.00, the exchange rate quoted to us by dealers for the settlement of obligations in foreign currencies on December 30, 2011.
- (2) 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 cross currency swaps and the nominal interest rates contracted to long-term debt as of December 31, 2011, and the market value of the unhedged cross currency swaps.
- (3) Other long-term liabilities include contingent liabilities and others. 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.

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As of December 31, 2011, Ps. 5,573 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

As of December 31, 2011, our consolidated average cost of borrowing, after giving effect to the cross currency and interest rate swaps, was approximately 6.3%, an increase of 0.5% percentage points compared to 5.8% in 2010. As of December 31, 2011, after giving effect to cross currency swaps, approximately 63% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 27% in U.S. dollars, 6% in Colombian pesos, 4% in Argentine pesos and the remaining 1% in Brazilian reais.

Overview of Debt Instruments

The following table shows the allocations of total debt of our company as of December 31, 2011:

	Total Debt Profile of the Company			Total Debt
	FEMSA and Others	Coca-Cola FEMSA	FEMSA Comercio	
(in millions of Mexican pesos)				
Short-term Debt				
<i>Argentine pesos:</i>				
Bank loans	Ps. —	Ps. 325	Ps. —	Ps. 325
<i>Colombian pesos</i>				
Bank loans	—	295	—	295
<i>Mexican pesos</i>				
Capital leases	—	18	—	18
Long-term Debt⁽¹⁾				
<i>Mexican pesos:</i>				
Bank loans	—	4,550	—	4,550
Units of Investment (UDIs)	3,337	—	—	3,337
Senior notes	3,500	8,000	—	11,500
<i>U.S. dollars:</i>				
Bank loans	—	7,241	—	7,241
<i>Brazilian reais:</i>				
Bank Loans	—	81	—	81
Capital leases	193	18	—	211
<i>Colombian pesos:</i>				
Bank Loans	—	935	—	935
Capital leases	—	386	—	386
<i>Argentine pesos:</i>				
Bank Loans	—	725	—	725
Total	Ps. 7,030	Ps. 22,574	—	Ps. 29,604
Average Cost⁽²⁾				
Mexican pesos	6.1%	6.8%	—	6.6%
U.S. dollars	—	4.3%	—	4.3%
Brazilian reais	11.0%	4.5%	—	8.8%
Argentine pesos	—	17.3%	—	17.3%
Colombian pesos	—	6.4%	—	6.4%
Total	6.2%	6.4%	—	6.3%

(1) Includes the Ps. 4,395 million current portion of long-term debt.

(2) Includes the effect of cross currency and interest rate swaps. Average cost is determined based on interest rates as of December 31, 2011.

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.

As of December 31, 2011, we were in compliance with all of Coca-Cola FEMSA's covenants. FEMSA was not subject to any financial covenants as of that date. A significant and prolonged deterioration in our consolidated results from 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, 2011:

- *Coca-Cola FEMSA*. Coca-Cola FEMSA's total indebtedness was Ps. 22,574 million as of December 31, 2011, as compared to Ps. 17,351 million as of December 31, 2010. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 5,540 million and Ps. 17,034 million, respectively, as of December 31, 2011, as compared to Ps. 1,840 million and Ps. 15,511 million, respectively, as of December 31, 2010. Total debt increased Ps. 5,223 million in 2011, compared to year-end 2010. In April 2011, Coca-Cola FEMSA issued two series of Mexican peso-denominated bonds, in 5-year floating rate and 10-year fixed rate tranches, in a principal amount of Ps. 2,500 million each. Proceeds from such issuances were used for general corporate purposes, as well as to pay down existing debt. As of December 31, 2011, cash and cash equivalents were Ps. 12,331 million, as compared to Ps. 12,534 million as of December 31, 2010. As of December 31, 2011, Coca-Cola FEMSA's cash and cash equivalents were comprised of 47.0% U.S. dollars, 23.2% Mexican pesos, 13.4% Brazilian reais, 13.1% Venezuelan bolivars, 1.6% Colombian pesos and 1.0% Argentine pesos.

As part of Coca-Cola FEMSA's financing policy, it expects to continue to finance its liquidity needs with cash from operations. Nonetheless, as a result of regulations in certain countries in which it operates, it may not be beneficial or, as the case of exchange controls in Venezuela, practicable for Coca-Cola FEMSA to remit cash generated in local operations to fund cash requirements in other countries. Exchange controls like those in Venezuela may also increase the real price of remitting cash from operations to fund debt requirements in other countries. In addition, in the event that cash from operations in these countries is not sufficient to fund future working capital requirements and capital expenditures, Coca-Cola FEMSA 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 Coca-Cola FEMSA may finance its working capital and capital expenditure needs with short-term or other borrowings.

Coca-Cola FEMSA's average cost of debt, based on interest rates as of December 31, 2011 and after giving effect to cross currency and interest rate swaps, was 4.3% in U.S. dollars, 6.8% in Mexican pesos, 6.4% in Colombian pesos, 4.5% in Brazilian reais and 17.3% in Argentine pesos as of December 31, 2011, compared to 4.5% in U.S. dollars, 6.2% in Mexican pesos, 4.5% in Colombian pesos, 4.5% in Brazilian reais and 16.0% in Argentine pesos as of December 31, 2010.

- *FEMSA Cerveza*. On April 30, 2010, Heineken N.V. assumed the total outstanding debt of FEMSA Cerveza. See "Item 4. Information on the Company—The Company—Corporate Background."
- *FEMSA Comercio*. As of December 31, 2011, FEMSA Comercio did not have outstanding debt.

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- *FEMSA*. As of December 31, 2011, *FEMSA* had total outstanding debt of Ps. 7,030 million, which is comprised of Ps. 3,500 million of *certificados bursátiles*, which mature in 2013, Ps. 3,337 million of *unidades de inversión* (inflation indexed units, or UDIs), which mature in November 2017, and Ps. 193 million of financial leases with maturity dates between 2012 and 2016. *FEMSA*'s average cost of debt, after giving effect to interest rate swaps and cross currency swaps, as of December 31, 2011, was 6.2% 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 and can be reasonably quantified. See "Item 8. Financial Information—Legal Proceedings." Most of these loss contingencies were recorded in Coca-Cola *FEMSA*'s books as reserves as a result of Panamco acquisition. Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

The following table presents the nature and amount of loss contingencies recorded as of December 31, 2011:

	Loss Contingencies As of December 31, 2011 (in millions of Mexican pesos)
Taxes, primarily indirect taxes	Ps. 1,405
Legal	1,128
Labor	231
Total	Ps. 2,764

As is customary in Brazil, we have been asked by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 2,418 million and of Ps. 2,292 million as of December 31, 2011 and 2010, respectively, by pledging fixed assets or providing bank guarantees.

In connection with certain past business combinations, Coca-Cola *FEMSA* has been indemnified by the sellers for certain contingencies. The agreements in connection with Coca-Cola *FEMSA*'s recent mergers with the beverage divisions of Grupo Tampico and Grupo CIMSA, respectively contain comparable indemnification provisions. See "Item 4. Information on the Company—The Company—Coca-Cola *FEMSA*—Recent Mergers and Acquisitions."

We have other contingencies that, based on a legal assessment of their risk of loss, have been classified by our legal counsel as more than remote but less than probable. These contingencies have a financial impact that is disclosed as loss contingencies in the notes of the consolidated financial statements. 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, 2011, the aggregate amount of such contingencies for which we had not recorded a reserve was Ps. 6,781 million.

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. 12,515 million in 2011 compared to Ps. 11,171 million in 2010, an increase of 12.0%. This was primarily due to capacity-related investments at Coca-Cola *FEMSA* and incremental investments at *FEMSA Comercio*, mainly related to store expansion. The principal components of our capital expenditures have been for equipment, market-related investments and production capacity and distribution network expansion at Coca-Cola *FEMSA* and the opening of new stores at *FEMSA Comercio*. See "Item 4. Information on the Company—Capital Expenditures and Divestitures."

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Expected Capital Expenditures for 2012

Our capital expenditure budget for 2012 is expected to be approximately US\$ 1,100 million. The following discussion is based on each of our sub-holding companies' internal 2012 budgets. The capital expenditure plan for 2012 is subject to change based on market and other conditions and the subsidiaries' results from operations and financial resources.

Coca-Cola FEMSA's capital expenditures in 2012 are expected to be up to approximately US\$ 700 million. Coca-Cola FEMSA's capital expenditures in 2012 are primarily intended for:

- investments in production capacity (primarily for one plant in Colombia and one in Brazil);
- market investments (primarily for the placement of coolers);
- returnable bottles and cases;
- improvements throughout its distribution network; and
- investments in IT.

Coca-Cola FEMSA estimates that of its projected capital expenditures for 2012, approximately 35.0% will be for its Mexican territories and the remainder will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budgeted capital expenditures for 2012. Coca-Cola FEMSA's capital expenditure plan for 2012 may change based on market and other conditions and on its results from operations and financial resources.

FEMSA Comercio's capital expenditure budget in 2012 is expected to total approximately US\$ 350 million, and will be allocated to the opening of new OXXO stores and to a lesser extent to the refurbishing of existing OXXO stores and the investment in two new distribution centers. In addition, investments are planned in FEMSA Comercio's IT, 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 financial instruments as of December 31, 2011. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models we believe are supported by sufficient, reliable and verifiable market data, recognized in the financial sector.

	Fair Value At December 31, 2011				Fair Value Asset (Liability)
	Maturity less than 1 year	Maturity 1 - 3 years	Maturity 3 - 5 years	Maturity in excess of 5 years	
			(in millions of Mexican pesos)		
Prices quoted by external sources	Ps. 457	Ps. (229)	Ps. (184)	Ps. 860	Ps. 903

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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:

	December 31,	
	2011	2010
	(in millions of Mexican pesos)	
Coca-Cola FEMSA	Ps. 79	Ps. 1899
Other subsidiaries	22	43
Total	Ps. 101	Ps. 2322

In inflationary economic environments, 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 FRS 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 FRS but presented under the equity method for U.S. GAAP purposes up until January 31, 2010. As of February 1, 2010, we acquired control of Coca-Cola FEMSA through a business acquisition without any transfer of consideration under U.S. GAAP (see "Item 18. Financial Statements");
- discontinued operations of FEMSA Cerveza due to the disposal of FEMSA Cerveza, which was accounted for as discontinued operations for purposes of Mexican FRS, and considered to be a continuing operation due to significant involvement with the disposed operation and accounted for as a disposal of net assets under U.S. GAAP (see "Item 18. Financial Statements");
- subsequent accounting of our investment in Heineken under the equity method for purposes of Mexican FRS; for U.S. GAAP purposes our investment in Heineken has been recognized based on the cost method because it was unable to obtain the required information to reconcile Heineken's net income from IFRS to U.S. GAAP (see "Item 18. Financial Statements");
- FEMSA's non-controlling interest acquisition and sales;
- deferred income taxes and deferred employee profit sharing;
- capitalization of comprehensive financing result;
- employee benefits; and
- effects of inflation, as pursuant to Mexican FRS through 2007, our audited consolidated financial statements recognize certain effects of inflation in accordance with Bulletin B-10. As a result of discontinued inflationary accounting for subsidiaries that operate in non-inflationary environments, our financial statements are no longer considered to be presented in a reporting currency that comprehensively includes the effects of price level changes. Therefore, the inflationary effects of inflationary economic environments arising in 2009, 2010 and 2011 resulted in a difference to be reconciled for U.S. GAAP purposes, except for the inflation effects from our subsidiary in Venezuela. Venezuela is considered to be a hyperinflationary environment since 2010, and we have therefore applied the accommodation provided for in Item 17(c)(2)(iv)(B) of the instructions to Form 20-F, pursuant to which a U.S. GAAP reconciliation is not required if financial statements stated in the currency of a hyperinflationary economy are translated into the reporting currency in accordance with IAS 21, "Changes in Foreign Exchange Rates." Because we apply NIF B-10, which complies with the indexation requirements of IAS 21 and IAS 29, "Financial Reporting in Hyperinflationary Economies," we are eligible for such accommodation.

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For a more detailed description of the differences between Mexican FRS and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income, and cash flows for the same periods presented for Mexican FRS purposes, and for the consolidated statement of changes in stockholders' equity for the years ended December 31, 2011 and 2010, as well as reconciliation of net income, comprehensive income and stockholders' equity under Mexican FRS to net income, comprehensive income and stockholders' equity under U.S. GAAP, see Notes 26 and 27 to our audited consolidated financial statements.

Under U.S. GAAP, we had net income attributable to controlling interest of Ps. 12,449 million and Ps. 67,445 million in 2011 and 2010, respectively. Under Mexican FRS, we had net controlling interest income of Ps. 15,133 million and Ps. 40,251 million in 2011 and 2010, respectively. In 2011, net income attributable to controlling interest under U.S. GAAP was lower than net controlling interest under Mexican FRS, mainly due to the elimination of income attributable to Heineken under U.S. GAAP, in accordance with the equity method, which was applied for Mexican FRS but not U.S. GAAP.

Controlling interest equity under U.S. GAAP as of December 31, 2011 and 2010 was Ps. 182,644 million and Ps. 163,641 million, respectively. Under Mexican FRS, controlling interest equity as of December 31, 2011 and 2010 was Ps. 133,580 million and Ps. 117,348 million, respectively. The principal reason for the difference between controlling interest stockholders' equity under U.S. GAAP and controlling interest equity under Mexican FRS was the reconciliation effects of the fair valuation of recognized regarding the Coca-Cola FEMSA acquisition in 2010 for U.S. GAAP purposes.

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 their corresponding alternate directors elected by our shareholders at the AGM. 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 eleven directors and that the holders of the Series D Shares elect five directors. 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).

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

Our bylaws provide that the board of directors shall meet at least once every three 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.

Our board of directors was elected at the AGM held on March 23, 2012, and currently consists of 17 directors and 15 alternate directors. The following table sets forth the current members of our board of directors:

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Series B Directors

José Antonio Fernández Carbajal <i>Chairman of the Board and Chief Executive Officer of FEMSA</i>	Born:	February 1954
	First elected (Chairman):	2001
	First elected (Director):	1984
	Term expires:	2013
	Principal occupation:	Chairman and Chief Executive Officer of FEMSA
	Other directorships:	Chairman of the board of Coca-Cola FEMSA and Fundación FEMSA A.C., Vice-Chairman of the supervisory board of Heineken N.V. and member of the board of Heineken Holding N.V., Chairman of the board of Instituto Tecnológico y de Estudios Superiores de Monterrey, (ITESM), and member of the boards of Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Televisa, S.A.B. (Televisa), Controladora Vuela Compañía de Aviación, S.A. de C.V. (Volaris) and US Mexico Foundation, and Co-chairman of the Advisory Board of Woodrow Wilson Center, Mexico Institute
	Business experience:	Joined FEMSA's strategic planning department in 1988, held managerial positions at FEMSA Cerveza's commercial division and OXXO, was appointed Deputy Chief Executive Officer of FEMSA in 1991, and was appointed our Chief Executive Officer in 1995
Education:	Holds a degree in industrial engineering and an MBA from ITESM	
Alternate director:	Federico Reyes García	
Eva Garza Lagüera Gonda ⁽¹⁾ <i>Director</i>	Born:	April 1958
	First elected:	1999
	Term expires:	2013
	Principal occupation:	Private investor
	Other directorships:	Member of the boards of directors of Coca-Cola FEMSA, ITESM and Premio Eugenio Garza Sada
	Education:	Holds a degree in Communication Sciences from ITESM
Alternate director:	Bárbara Garza Lagüera Gonda ⁽²⁾	
Paulina Garza Lagüera Gonda ⁽²⁾ <i>Director</i>	Born:	March 1972
	First elected:	2009
	Term expires:	2013
	Principal occupation:	Private investor
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA
	Education:	Holds a business administration degree from ITESM
Alternate director:	Othón Páez Garza	
José Fernando Calderón Rojas <i>Director</i>	Born:	July 1954
	First elected:	2005
	Term expires:	2013
	Principal occupation:	Chief Executive Officer of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., and Franca Industrias, S.A. de C.V.
	Other directorships:	Chairman of the boards of Franca Servicios, S.A. de C.V., Franca Industrias, S.A. de C.V., Regio Franca, S.A. de C.V., and Servicios Administrativos de Monterrey, S.A. de C.V., and member of the boards of 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 ⁽³⁾	

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Consuelo Garza de Garza <i>Director</i>	Born: First elected: Term expires: Business experience: Alternate director:	October 1930 1995 2013 Founder and former President of Asociación Nacional Pro-Superación Personal, (a non-profit organization) Alfonso Garza Garza ⁽⁴⁾
Max Michel Suberville <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education: Alternate director:	July 1932 1985 2013 Private Investor Co-chairman of the equity committee of El Puerto de Liverpool, S.A.B. de C.V. (Liverpool). Member of the boards of Coca-Cola FEMSA, Peñoles, Grupo Nacional Provincial, S.A.B. (GNP), Grupo Profuturo, S.A. de C.V. (Profuturo), Grupo GNP Pensiones, S.A. de C.V. y Afianzadora Sofimex, S.A. Holds a graduate degree from The Massachusetts Institute of Technology and completed post-graduate studies at Harvard University Max Michel González ⁽⁵⁾
Alberto Bailleres González <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education: Alternate director:	August 1931 1989 2013 Chairman of the boards of directors of Grupo BAL, S.A. de C.V. Peñoles, GNP, Fresnillo plc, Grupo Palacio de Hierro, S.A.B. de C.V., Profuturo and Valores Mexicanos Casa de Bolsa, S.A. de C.V., and Chairman of the Governance Board of Instituto Tecnológico Autónomo de México. Member of the boards of directors of BBVA Bancomer, Bancomer, 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 member of the advisory board of JP Morgan International Council Holds an economics degree and an Honorary Doctorate both from Instituto Tecnológico Autónomo de México Arturo Fernández Pérez
Francisco Javier Fernández Carbajal ⁽⁶⁾ <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education: Alternate director:	April 1955 2005 2013 Chief Executive Officer of Servicios Administrativos Contry, S.A. de C.V. Chairman of the boards of directors of Primero Fianzas, S.A., Primero Seguros, S.A. and Primero Seguros Vida, S.A. and member of the boards of directors of Visa, Inc., Grupo Aeroportuario del Pacífico, S.A.B. de C.V., Alfa, Liverpool, Cemex, S.A.B. de C.V., Frisa Forjados, S.A. de C.V., Corporación EG, S.A. de C.V. and Fresnillo, Plc. Holds degrees in mechanical and electrical engineering from ITESM and an MBA from Harvard Business School Javier Astaburuaga Sanjines

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Ricardo Guajardo Touché <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education: Alternate director:	May 1948 1988 2013 Chairman of the board of directors of Solfi, S.A. Member of the boards of directors of Grupo Valores Monterrey, Liverpool, Alfa, BBVA Bancomer, Grupo Aeroportuario del Sureste, S.A. de C.V. (ASUR), Grupo Industrial Bimbo, S.A.B. de C.V. (Bimbo), Bancomer, Grupo Coppel and Coca-Cola FEMSA Holds degrees in electrical engineering from ITESM and the University of Wisconsin and a master's degree from the University of California at Berkeley Alfonso González Migoya
Alfredo Livas Cantú <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education: Alternate Director:	July 1951 1995 2013 Chairman of the board of directors of Grupo Industrial Saltillo, S.A.B. de C.V. Member of the boards of directors of Grupo Senda Autotransporte, S.A. de C.V., Grupo Acosta Verde, S.A. de C.V., Evox, and Grupo Financiero Banorte S.A.B. de C.V., Grupo Proeza, S.A. de C.V. and Grupo Christus Mugerza Holds an economics degree from UANL and an MBA and masters degree in economics from the University of Texas Sergio Deschamps Ebergenyi
Mariana Garza Lagüera Gonda ⁽²⁾ <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education: Alternate director:	April 1970 2001 2013 Private Investor Member of the boards of directors of Coca-Cola FEMSA, Hospital San José Tec de Monterrey and Museo de Historia Mexicana Holds a business administration degree in Industrial Engineering from ITESM and a Master of International Management from the Thunderbird American Graduate School of International Management Juan Guichard Michel ⁽⁷⁾
José Manuel Canal Hernando <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education: Alternate director:	February 1940 2003 2013 Private consultant Member of the boards of directors of Coca-Cola FEMSA, Banco Compartamos, S.A., Kuo, Consorcio Comex, Grupo Industrial Saltillo, S.A.B. de C.V., Grupo Acir, S.A. de C.V., Satelites Mexicanos, S.A. de C.V. and Grupo Diagnóstico Proa, S.A. de C.V. Holds a CPA degree from the Universidad Nacional Autónoma de México Ricardo Saldívar Escajadillo

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Series D Directors

Armando Garza Sada <i>Director</i>	Born:	June 1957
	First elected:	2003
	Term expires:	2013
	Principal occupation:	Chairman of the board of directors of Alfa
	Other directorships:	Member of the boards of directors of Liverpool, Grupo Lamosa S.A.B. de C.V., Bolsa Mexicana de Valores, S.A.B. de C.V., MVS Comunicaciones, S.A. de C.V., ITESM, Frisa Forjados, S.A. de C.V. and CYDSA, S.A.B. de C.V.
	Business experience:	He has a long professional career in Alfa, including Executive Vice-President of Corporate Development
	Education:	Holds a B.S. in Management from the Massachusetts Institute of Technology and an MBA from Stanford University
	Alternate director:	Enrique F. Senior Hernández
Moisés Naim <i>Director</i>	Born:	July 1952
	First elected:	2011
	Term expires:	2013
	Principal occupation:	Senior Associate of Carnegie Endowment for International Peace
	Business experience:	Former Editor in Chief of the Washington Post Co.
	Education:	Holds a degree from the Universidad Metropolitana de Venezuela and a Master of Science and PhD from the Massachusetts Institute of Technology
	Alternate director:	Francisco Zambrano Rodríguez
Helmut Paul <i>Director</i>	Born:	March 1940
	First elected:	1988
	Term expires:	2013
	Principal occupation:	Member of the Advisory Council of Zurich Financial Services
	Other directorships:	Member of the board of directors of Coca-Cola FEMSA
	Business experience:	Advisor at Darby Overseas Investment, Ltd.
	Education:	Holds an MBA from the University of Hamburg
	Alternate director:	Ernesto Cruz Velázquez de León

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Michael Larson <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships:	October 1959 2011 2013 Chief Investment Officer of William H. Gates III Member of the boards of directors of AutoNation, Inc, Republic Services, Inc, Ecolab, Inc., Cavemont and Televisa, and chairman of the board of trustees of Western Asset/Claymore Inflation-Linked Securities & Income Fund and Western Asset/Claymore Inflation-Linked Opportunities & Income Fund
	Business experience: Education:	Former member of the boards of directors of Pan American Silver, Corp. and Hamilton Lane Advisors Holds an MBA from the University of Chicago and a BA from Claremont Men’s College
Robert E. Denham <i>Director</i>	Born: First elected: Term expires: Principal occupation: Other directorships: Education:	August 1945 2001 2013 Partner of Munger, Tolles & Olson LLP law firm Member of the boards of directors of New York Times Co., Oaktree Capital Group, LLC, UGL Limited and Chevron Corp. <i>Magna cum laude</i> graduate from the University of Texas, holds a JD from Harvard Law School and an M.A. in Government from Harvard University.

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

Senior Management

The names and positions of the members 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 <i>Chairman of the Board and Chief Executive Officer of FEMSA</i>	See “—Directors.” Joined FEMSA: Appointed to current position:	1987 1994
Javier Gerardo Astaburuaga Sanjines <i>Chief Financial Officer and Executive Vice-President of Finance and Strategic Development</i>	Born: Joined FEMSA: Appointed to current position: Business experience within FEMSA:	July 1959 1982 2006 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 year he was appointed FEMSA Cerveza’s Co-Chief Executive Officer

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	Directorships:	Member of the board of Coca-Cola FEMSA and member of the Supervisory Board of directors of Heineken N.V.
	Education:	Holds a CPA degree from ITESM
Federico Reyes García <i>Vice-President of Corporate Development of FEMSA</i>	Born:	September 1945
	Joined FEMSA:	1992
	Appointed to current position:	2006
	Business experience within FEMSA:	Executive Vice-President of Corporate Development from 1992 to 1993, and Chief Financial Officer from 1999 until 2006
	Directorships:	Member of the boards of Coca-Cola FEMSA and Optima Energía
	Education:	Holds a degree in business and finance from ITESM
José González Ornelas <i>Vice-President of Administration and Corporate Control of FEMSA</i>	Born:	April 1951
	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.
	Directorships:	Member of the board of directors of Productora de Papel, S.A.
	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 <i>Vice-President of Human Resources and Strategic Procurement, Business Processes, and Information Technology</i>	Born:	July 1962
	Joined FEMSA:	1985
	Appointed to current position:	2009
	Business experience within FEMSA:	Has experience in several FEMSA business units and departments, including domestic sales, international sales, procurement and marketing, mainly at FEMSA Cerveza and as Chief Executive Officer of FEMSA Empaques, S.A. de C.V.
	Directorships:	Member of the boards of directors of Coca-Cola FEMSA, ITESM and Nutec, S.A. de C.V., vice chairman of the communications council of Confederación Patronal de la República Mexicana, S.P. (COPARMEX) and chairman of COPARMEX Nuevo León
	Education:	Holds a degree in Industrial Engineering from ITESM and an MBA from IPADE
Genaro Borrego Estrada <i>Vice-President of Corporate Affairs</i>	Born:	February 1949
	Joined FEMSA:	2007
	Appointed to current position:	2007

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	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
	Directorships:	Member of the board of TANE, S.A. de C.V.
	Education:	Holds a bachelor's degree in International Relations from the Universidad Iberoamericana
Carlos Aldrete Ancira <i>General Counsel and Secretary of the Board of Directors</i>	Born:	August 1956
	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 of FEMSA
	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
Coca-Cola FEMSA		
Carlos Salazar Lomelín <i>Chief Executive Officer of Coca-Cola FEMSA</i>	Born:	April 1951
	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
	Directorships:	Member of the boards of Coca-Cola FEMSA, BBVA Bancomer, AFORE Bancomer, S.A. de C.V., Seguros Bancomer, S.A. de C.V., member of the advisory board of Premio Eugenio Garza Sada, Centro Internacional de Negocios Monterrey A.C. (CINTERMEX), Apex and the ITESM's EGADE Business School
	Education:	Holds a bachelor's degree in economics from ITESM, and performed postgraduate studies in business administration at ITESM and economic development in Italy
Héctor Treviño Gutiérrez <i>Chief Financial Officer</i>	Born:	August 1956
	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
	Directorships:	Member of the boards of SIEFORES, Insurance and Pensions of BBVA Bancomer and Vinte Viviendas Integrales, S.A.P.I. de C.V., and member of the Technical Committee of Capital-3
	Education:	Holds a degree in chemical engineering from ITESM and an MBA from the Wharton Business School

FEMSA Comercio

Eduardo Padilla Silva <i>Chief Executive Officer of FEMSA Comercio</i>	Born:	January 1955
	Joined FEMSA:	1997
	Appointed to current position:	2004
	Business experience within FEMSA:	Director of Planning and Control of FEMSA from 1997 to 1999 and Chief Executive Officer of the Strategic Procurement Business Division of FEMSA 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
	Directorships:	Member of the boards of Grupo Lamosa, S.A. de C.V., Club Industrial , A.C., Asociación Nacional de Tiendas de Autoservicios y Departamentales, A.C. and NACS, and alternate member of the board of Coca-Cola FEMSA
	Education:	Holds a degree in mechanical engineering from ITESM, an MBA from Cornell University and a Masters degree from IPADE

Compensation of Directors and Senior Management

The compensation of Directors is approved at the AGM. For the year ended December 31, 2011, the aggregate compensation paid to our directors was approximately Ps. 13.5 million.

For the year ended December 31, 2011, the aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries was approximately Ps. 1,279 million. Aggregate compensation includes bonuses we paid to certain members of senior management and payments in connection with the EVA stock incentive plan described in Note 16 to our audited consolidated financial statements. 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, 2011, amounts set aside or accrued for all employees under these retirement plans were Ps. 4,403 million, of which Ps. 1,991 million is already funded.

EVA Stock Incentive Plan

In 2004, 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 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.

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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 March 30, 2012, the trust that manages the EVA stock incentive plan held a total of 8,757,485 BD Units of FEMSA and 2,606,007 Series L Shares of Coca-Cola FEMSA, each representing 0.24% 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 March 23, 2012, 6,922,159,485 Series B Shares representing 74.86% 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 April 15, 2012 beneficially owned by our directors who are participants in the voting trust, other than the shares deposited in the voting trust:

Beneficial Owner	Series B		Series D-B		Series D-L	
	Shares	Percent of Class	Shares	Percent of Class	Shares	Percent of Class
Eva Garza Lagüera Gonda	2,665,844	0.03%	5,331,688	0.12%	5,331,688	0.12%
Mariana Garza Lagüera Gonda	2,944,090	0.03%	5,888,180	0.12%	5,888,180	0.12%
Barbara Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Paulina Garza Lagüera Gonda	2,665,480	0.03%	5,330,960	0.12%	5,330,960	0.12%
Consuelo Garza de Garza	69,488,677	0.75%	12,886,904	0.29%	12,886,904	0.29%
Alberto Bailleres González	9,475,196	0.10%	11,664,112	0.26%	11,664,112	0.26%
Alfonso Garza Garza	714,995	—	1,381,590	0.03%	1,381,590	0.03%
Max Michel Suberville	17,379,630	0.19%	34,759,260	0.80%	34,759,260	0.80%

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, other than post-retirement medical services plans and post-retirement pension plans for our senior managers on the same basis as our other employees.

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) the appointment, compensation, retention and oversight of the independent auditor, who reports directly to the Audit Committee and (3) 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: José Manuel Canal Hernando (Chairman and Financial Expert), Francisco Zambrano Rodríguez, Ernesto Cruz Velázquez de León and Alfonso González Migoya. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Law and applicable NYSE listing standards. The Secretary of the Audit Committee is José González Ornelas, head of FEMSA’s internal audit department.
- *Finance and Planning Committee.* The Finance and Planning Committee’s 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 and Planning Committee members are: Ricardo Guajardo Touché (chairman), Federico Reyes García, Robert E. Denham, Francisco Javier Fernández Carbajal and Alfredo Livas Cantú. Javier Astaburuaga Sanjines is the appointed secretary of this committee.
- *Corporate Practices Committee.* The Corporate Practices Committee 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 Helmut Paul. The additional members are: Robert E. Denham and Ricardo Saldivar Escajadillo. Each member of the Corporate Practices Committee is an independent director, as required by the Mexican Securities Law. The Secretary of the Corporate Practices Committee is Alfonso Garza Garza.

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Employees

As of December 31, 2011, our headcount by geographic region was as follows: 134,985 in Mexico, 5,874 in Central America, 8,929 in Colombia, 8,431 in Venezuela, 15,229 in Brazil and 4,022 in Argentina. We include in headcount employees of third-party distributors and non-management store employees. The table below sets forth headcount for the years ended December 31, 2011, 2010, and 2009:

Headcount for the Year Ended December 31,⁽¹⁾

Sub-holding company	2011			2010		2009	
	Non-Union	Union	Total	Non-Union	Union	Non-Union	Union
Coca-Cola FEMSA ⁽²⁾	41,462	37,517	78,979	35,364	33,085	35,734	31,692
FEMSA Comercio ⁽³⁾	56,914	26,906	83,820	51,919	21,182	43,142	17,760
Other	8,043	6,628	14,671	6,270	5,989	6,592	4,947
Total	106,419	71,051	177,470	93,553	60,256	85,468	54,399

- (1) As of April 30, 2010, FEMSA no longer controls FEMSA Cerveza. As a result, employee headcount of FEMSA Cerveza as of December 31, 2009, is not included for comparability purposes.
- (2) Includes employees of third-party distributors whom we do not consider to be our employees, amounting to 18,143, 17,347 and 17,393 in 2011, 2010 and 2009, respectively.
- (3) Includes non-management store employees, whom we do not consider to be our employees, amounting to 48,801, 44,625 and 37,429 in 2011, 2010 and 2009 respectively.

As of December 31, 2011, our subsidiaries had entered into 302 collective bargaining or similar agreements with personnel employed at our operations. Each of the labor unions in Mexico is associated with one of eight different national Mexican labor organizations. In general, we have a good relationship with the labor unions throughout our operations, except for in Colombia, Venezuela and Guatemala which are or have been 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, 2011**

Sub-holding Company	Collective Bargaining Agreements	Labor Unions
Coca-Cola FEMSA	117	67
FEMSA Comercio ⁽¹⁾	104	4
Others	81	11
Total	302	82

- (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 March 23, 2012. 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 March 23, 2012

Shareholder	Series B Shares ⁽¹⁾		Series D-B Shares ⁽²⁾		Series D-L Shares ⁽³⁾		Total Shares of FEMSA Capital Stock
	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⁾	6,922,159,485	74.86%	—	0%	—	0%	38.69%
William H. Gates III ⁽⁵⁾	281,053,490	3.04%	562,106,980	13.00%	562,106,980	13.00%	7.85%
Aberdeen Asset Management PLC ⁽⁶⁾	271,902,190	2.95%	543,804,380	12.58%	543,804,380	12.58%	7.60%

- (1) As of March 23, 2012, there were 9,246,420,270 Series B Shares outstanding.
- (2) As of March 23, 2012, there were 4,322,355,540 Series D-B Shares outstanding.
- (3) As of March 23, 2012, 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), J.P. Morgan (Suisse), S.A., as Trustee under a trust controlled by Paulina Garza Lagüera Gonda, Bárbara Garza Lagüera Gonda, 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 Garza Lagüera family), Corbal, S.A. de C.V. (controlled by Alberto Bailleres González), 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).
- (5) As reported on Schedule 13D filed on March 28, 2011, includes aggregate shares beneficially owned by Cascade Investments, LLC, over which William H. Gates III has sole voting and dispositive power, and shares beneficially owned by the Bill and Melinda Gates Foundation Trust, over which William H. Gates III and Melinda French Gates have shared voting and dispositive power.
- (6) As reported on Schedule 13G filed on January 11, 2012 by Aberdeen Asset Management PLC.

As of March 30, 2012, there were 48 holders of record of ADSs in the United States, which represented approximately 58% 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 on May 6, 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 by 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 bylaws, 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 corporate practices committee.

On April 30, 2010, José Antonio Fernández Carbajal, our Chairman and Chief Executive Officer, started to serve as a member of the Board of Directors of Heineken Holding, N.V. and the Supervisory Board of Heineken N.V. Javier Astaburuaga Sanjines, our Chief Financial Officer, also serves on the supervisory Board of Heineken N.V. as of April 30, 2010. Since that date, we have made purchases of beer in the ordinary course of business from the Heineken Group in the amount of Ps. 7,063 million for the last eight months of 2010 and Ps. 9,397 million for 2011. During the last eight months of 2010, we also supplied logistics and administrative services to subsidiaries of Heineken for a total of Ps. 1,048 million, and in 2011 for Ps. 2,169 million. As of the end of December 31, 2011 and 2010, our net balance due to Heineken amounted to Ps. 1,291 million and Ps. 1,038 million, respectively.

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We, along with certain of our subsidiaries, regularly engage in financing and insurance coverage transactions, including entering into loans and bond offerings in the local capital markets, with subsidiaries of BBVA Bancomer, a financial services holding company of which Alberto Bailleres González, José Fernando Calderón Rojas, Ricardo Guajardo Touché and José Manuel Canal Hernando, who are also directors of FEMSA, are directors. We made interest expense payments and fees paid to BBVA Bancomer in respect of these transactions of Ps. 128 million, Ps. 108 million, and Ps. 260 million as of December 31, 2011, 2010 and 2009, respectively. The total amount due to BBVA Bancomer as of the end of December 31, 2011 and 2010 was Ps. 1.1 billion and Ps. 999 million, respectively, and we also had a balance with BBVA Bancomer of Ps. 2,791 million and Ps. 2,944 million, respectively, as of December 31, 2011 and 2010.

We regularly engage in the ordinary course of business in hedging transactions, and enter into loans and credit line facilities on an arm's length basis with subsidiaries of Grupo Financiero Banamex, S.A. de C.V., or Grupo Financiero Banamex, a financial services holding company which qualified as our related party until March 2011. The interest expense and fees paid to Grupo Financiero Banamex as of December 31, 2011, 2010, and 2009 were Ps. 28 million, Ps. 56 million, and Ps. 61 million, respectively. As of the end of December 31, 2010, the total amount due to Grupo Financiero Banamex was Ps. 500 million, and we also had a receivable balance with Grupo Financiero Banamex of Ps. 2,103 million.

We maintain an insurance policy covering auto insurance and medical expenses for executives issued by Grupo Nacional Provincial, S.A.B., an insurance company of which Alberto Bailleres González and Max Michelle Suberville, who are also directors of FEMSA, are directors. The aggregate amount of premiums paid under these policies was approximately Ps. 59 million, Ps. 69 million, and Ps. 78 million in 2011, 2010 and 2009, respectively.

We, along with certain of our subsidiaries, spent Ps. 86 million, Ps. 37 million, and Ps. 13 million in the ordinary course of business in 2011, 2010 and 2009, respectively, in publicity and advertisement purchased from Grupo Televisa, S.A.B., a media corporation in which our Chairman and Chief Executive Officer, José Antonio Fernández Carbajal, and two of our Directors, Alberto Bailleres González and Michael Larson, serve as directors.

Coca-Cola FEMSA, in its ordinary course of business, purchased Ps. 1,248 million, Ps. 1,206 million, and Ps. 1,044 million in 2011, 2010, and 2009, respectively, in juices from subsidiaries of Jugos del Valle.

In October 2011, Coca-Cola FEMSA executed certain agreements with affiliates of Grupo Tampico to acquire specific products and services such as plastic cases, certain truck and car brands, as well as auto parts, exclusively for the territories of Grupo Tampico, which provide for certain preferences to be elected as suppliers in Coca-Cola FEMSA's suppliers' bidding processes.

FEMSA Comercio, in its ordinary course of business, purchased Ps. 2,270 million, Ps. 2,018 million, and Ps. 1,733 million in 2011, 2010, and 2009, respectively, in baked goods and snacks for its stores from subsidiaries of Bimbo, of which Ricardo Guajardo Touché, one of FEMSA's directors, is a director. FEMSA Comercio also purchased Ps. 316 million and Ps. 126 million in 2011 and 2010, respectively, in juices from subsidiaries of Jugos del Valle. These purchases were entered into in the ordinary course of business, and we believe they were made on terms comparable to those that could be obtained in arm's length negotiations with unaffiliated third parties.

José Antonio Fernández Carbajal, Eva Garza Lagüera Gonda, Mariana Garza Lagüera Gonda, Ricardo Guajardo Touché, Alfonso Garza Garza and Armando Garza Sada, who are directors of FEMSA, are also members of the board of directors of ITESM, which is a prestigious university system with headquarters in Monterrey, Mexico that routinely receives donations from FEMSA and its subsidiaries. For the years ended December 31, 2011, 2010, and 2009, donations to ITESM amounted to Ps. 81 million, Ps. 63 million, and Ps. 72 million, respectively.

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. 21,183 million, Ps. 19,371 million, and Ps. 16,863 million in 2011, 2010, and 2009, respectively.

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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 coolers, bottles and cases investment program. Coca-Cola FEMSA received contributions to its marketing expenses and the coolers investment program of Ps. 2,561 million, Ps. 2,386 million, and Ps. 1,945 million in 2011, 2010, and 2009, respectively.

In December 2007 and in May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. The proprietary brands are now being licensed back to Coca-Cola FEMSA by The Coca-Cola Company pursuant to Coca-Cola FEMSA's bottler agreements. The December 2007 transaction was valued at US\$ 48 million and the May 2008 transaction was valued at US\$ 16 million. Coca-Cola FEMSA believes that both of these transactions were conducted on an arm's length basis. Revenues from the sale of proprietary brands realized in prior years in which Coca-Cola FEMSA has a significant continuing involvement are deferred and amortized against the related costs of future sales over the estimated sales period. The balance to be amortized amounted to Ps. 302 million, Ps. 547 million, and Ps. 616 million as of December 31, 2011, 2010, and 2009, respectively. The short-term portions are included in other current liabilities as of December 31, 2011, 2010, and 2009, and amounted to Ps. 197 million, Ps. 276 million, and Ps. 203 million, respectively.

In Argentina, Coca-Cola FEMSA purchases a portion of its plastic ingot requirements for producing plastic bottles and all of its returnable plastic 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 November 2007, Administración S.A.P.I. acquired 100% of the shares of capital stock of Jugos del Valle. The business of Jugos del Valle in the United States was acquired and sold by The Coca-Cola Company. In June 2008, Administración S.A.P.I. and Jugos del Valle (surviving company) were merged. Subsequently, Coca-Cola FEMSA and The Coca-Cola Company and all Mexican and Brazilian *Coca-Cola* bottlers entered into a joint business for the Mexican and the Brazilian operations, respectively, of Jugos del Valle, through transactions completed during 2008. Coca-Cola FEMSA currently holds an interest of 24.0% in the Mexican joint business and approximately 19.7% in the Brazilian joint business. Jugos del Valle sells juice-based beverages and fruit derivatives. Coca-Cola FEMSA distributes the Jugos del Valle line of juice-based beverages in Brazil and its territories in South America.

In February 2009, Coca-Cola FEMSA acquired with The Coca-Cola Company the *Brisa* bottled water business in Colombia from Bavaria, a subsidiary of SABMiller. Coca-Cola FEMSA acquired the production assets and the rights to distribute in the territory, and The Coca-Cola Company acquired the *Brisa* brand. Coca-Cola FEMSA and The Coca-Cola Company equally shared in paying the purchase price of US\$ 92 million. Following a transition period, in June 2009, Coca-Cola FEMSA started to sell and distribute the *Brisa* portfolio of products in Colombia.

In May 2009, Coca-Cola FEMSA completed a transaction to develop the *Crystal* trademark water business in Brazil with The Coca-Cola Company.

In August 2010, Coca-Cola FEMSA acquired from The Coca-Cola Company along with other Brazilian *Coca-Cola* bottlers the business operations of the *Matte Leão* tea brand. As of April 20, 2012 Coca-Cola FEMSA had a 19.4% indirect interest in the *Matte Leão* business in Brazil.

In September 2010, FEMSA sold Promotora to The Coca-Cola Company. Promotora was the owner of the *Mundet* brands of soft drinks in Mexico.

In March 2011, Coca-Cola FEMSA, together with The Coca-Cola Company and through Compañía Panameña de Bebidas S.A.P.I. de C.V., acquired Estrella Azul, a Panamanian conglomerate that participates in the dairy and juice-based beverage categories in Panama. Coca-Cola FEMSA will continue to develop this business with The Coca-Cola Company.

In February 2012, Coca-Cola FEMSA announced that it had entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition by Coca-Cola FEMSA of a controlling

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ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. Both parties believe that Coca-Cola FEMSA's expertise and successful track record operating in fragmented markets and emerging economies could be effectively deployed in such territory, and contribute significantly toward expanding the penetration of, and consumer preference for, The Coca-Cola Company's brands in that market. This exclusivity agreement does not require either party to enter into any transaction, and there can be no assurances that a definitive agreement will be executed.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

See pages F-1 through F-144, 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 from operations.

Coca-Cola FEMSA

Mexico

Antitrust Matters

During 2000, the CFC, pursuant to complaints filed by PepsiCo. and certain of its bottlers in Mexico, began an investigation of The Coca-Cola Company Export Corporation and its bottlers for alleged monopolistic practices through exclusivity arrangements with certain retailers.

After the corresponding legal proceedings in Mexico in 2008, a Mexican Federal Court rendered a final adverse judgment against two of the eight Mexican subsidiaries involved in the proceedings (which total number includes the beverage divisions of Grupo CIMSA and Grupo Tampico), upholding a fine of approximately Ps. 10.5 million imposed by the CFC on each of the two subsidiaries and ordering the immediate suspension of such practices of alleged exclusivity arrangements and conditional dealing. With respect to the complaints against the remaining six subsidiaries (including the beverage divisions of Grupo CIMSA and Grupo Tampico), a final favorable resolution was rendered in the Mexican Federal Court on June 9, 2010. In March 2011, the CFC dropped all fines against and ruled in favor of all of the involved subsidiaries, on the grounds of insufficient evidence to prove individual and specific liability in the alleged antitrust violations. These resolutions are final and unappealable.

In February 2009, the CFC began a new investigation of alleged monopolistic practices consisting of sparkling beverage sales subject to exclusivity agreements and the granting of discounts and/or benefits in exchange for exclusivity arrangements with certain retailers. In December 2011, the CFC closed this investigation on the grounds of insufficient evidence of monopolistic practices by The Coca-Cola Company and its bottlers. However, on February 9, 2012, the plaintiff appealed the decision of the CFC. The CFC has not yet ruled on whether to accept or deny the appeal.

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Central America

Antitrust Matters in Costa Rica

During August 2001, the *Comisión para Promover la Competencia* in Costa Rica (Costa Rican Antitrust Commission), pursuant to a complaint filed by PepsiCo. and its bottler in Costa Rica, initiated an investigation of the sales practices of The Coca-Cola Company and Coca-Cola FEMSA's Costa Rican subsidiary for alleged monopolistic practices in retail distribution, including sales exclusivity arrangements. A ruling from the Costa Rican Antitrust Commission was issued in July 2004, which found Coca-Cola FEMSA's subsidiary in Costa Rica engaged in monopolistic practices with respect to exclusivity arrangements, pricing and the sharing of coolers under certain limited circumstances and imposed a fine of US\$ 130,000 (approximately Ps. 1.5 million). The court dismissed Coca-Cola FEMSA's appeal of the Costa Rican Antitrust Commission's ruling. On August 30, 2011, Coca-Cola FEMSA appealed the court's dismissal before the Supreme Court, but the Supreme Court affirmed the dismissal on December 1, 2011. Notwithstanding the above, this matter will not have a material adverse effect on Coca-Cola FEMSA's financial condition or results of operations because Coca-Cola FEMSA has already paid the Costa Rican Antitrust Commission's fine and is currently complying with its resolution.

In November 2004, *Ajecen del Sur S.A.*, the bottler of *Big Cola* in Costa Rica, filed a complaint before the Costa Rican Antitrust Commission related to monopolistic practices in retail distribution and exclusivity agreements against The Coca-Cola Company and Coca-Cola FEMSA's Costa Rican subsidiary. The Costa Rican Antitrust Commission decided to pursue an investigation, but has issued a final resolution in Coca-Cola FEMSA's favor imposing no fine.

Colombia

Labor Matters

During July 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the U.S. District Court for the Southern District of Florida against certain of Coca-Cola FEMSA's subsidiaries. The plaintiffs alleged that the subsidiaries engaged in wrongful acts against the labor union and its members in Colombia, including kidnapping, torture, death threats and intimidation. The complaint alleges claims under the U.S. Alien Tort Claims Act, Torture Victim Protection Act, Racketeer Influenced and Corrupt Organizations Act and state tort law and seeks injunctive and declaratory relief and damages of more than US\$ 500 million, including treble and punitive damages and the cost of the suit, including attorney fees. In September 2006, the federal district court dismissed the complaint with respect to all claims. The plaintiffs appealed and in August 2009, the Appellate Court affirmed the decision in favor of Coca-Cola FEMSA's subsidiaries. The plaintiffs moved for a rehearing, and in September 2009, the rehearing motion was denied. Plaintiffs attempted to seek reconsideration *en banc*, but so far, the court has not considered it.

Venezuela

Tax Matters

In 1999, some of Coca-Cola FEMSA's Venezuelan subsidiaries received notice of indirect tax claims asserted by the Venezuelan tax authorities. These subsidiaries have taken the appropriate measures against these claims at the administrative level and filed appeals with the Venezuelan courts. The claims currently amount to approximately US\$ 21.1 million (approximately Ps. 250 million). Coca-Cola FEMSA has certain rights to indemnification from Venbottling Holding, Inc., a former shareholder of Panamco and The Coca-Cola Company, for a substantial portion of the claims. Coca-Cola FEMSA does not believe that the ultimate resolution of these cases will have a material adverse effect on its financial condition or results from operations.

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Brazil

Antitrust Matters

Several claims have been filed against Coca-Cola FEMSA by private parties that allege anticompetitive practices by Coca-Cola FEMSA's Brazilian subsidiaries. The plaintiffs are Ragi (Dolly), a Brazilian producer of "B Brands," and PepsiCo, alleging anticompetitive practices by Spal Indústria Brasileira de Bebidas S.A. and Recofarma Indústria do Amazonas Ltda. Of the four claims Dolly filed against Coca-Cola FEMSA, the only one remaining concerns a denial of access to common suppliers. Of the two claims made by PepsiCo, the first concerns exclusivity arrangements at the point of sale, and the second is an alleged corporate espionage allegation against the Pepsi bottler, BAESA, which the Ministry of Economy recommended be dismissed for lack of evidence. Under Brazilian law, each of these claims could result in substantial monetary fines and other penalties, although Coca-Cola FEMSA believes each of the claims is without merit.

Significant Changes

Since December 31, 2011, the following significant change has occurred in our business, as described in more detail in "Item 5. Operating and Financial Review and Prospects—Recent Developments" and in Note 29 to our audited consolidated financial statements:

- In February 2012, a wholly-owned subsidiary of Mitsubishi Corporation and Stichting Depository PGGM Infrastructure Funds, a pension fund managed by PGGM, acquired the 45% interest held by FEMSA in the parent companies of the Mareña Renovables Wind Power Farm. The sale of FEMSA's participation as an investor will result in a gain.

ITEM 9. THE OFFER AND LISTING

Description of Securities

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

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

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

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

At our AGM held on March 29, 2007, our shareholders approved a three-for-one stock split in respect all of our outstanding capital stock. Following the stock split, our total capital stock consists of 2,161,177,770 BD Units and 1,417,048,500 B Units. Our stock split also resulted in a three-for-one stock split of our ADSs. The stock-split was conducted on a pro-rata basis in respect of all holders of our shares and all ADS holders of record as of May 25, 2007, and the ratio of voting and non-voting shares was maintained, thereby preserving our ownership structure as it was prior to the stock-split.

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, absent further shareholder action.

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Previously, our bylaws provided that on May 11, 2008, each Series D-B Share would automatically convert into one Series B Share with full voting rights, and each Series D-L Share would automatically convert into one Series L Share with limited voting rights. At that time:

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

However, following the April 22, 2008, shareholder approvals, these changes will no longer occur and instead our share and unit structure will remain unchanged, absent shareholder action, as follows:

- the BD Units and the B Units will continue to exist; and
- the dividend preferences of the Series D-B Shares and Series D-L Shares of 125% of any amount distributed in respect of each Series B Share will continue to exist.

The following table sets forth information regarding our capital stock as of March 31, 2012:

<u>Class</u>	<u>Number</u>	<u>Percentage of Capital</u>	<u>Percentage of Full Voting Rights</u>
Series B Shares (no par value)	9,246,420,270	51.68%	100%
Series D-B Shares (no par value)	4,322,355,540	24.16%	0%
Series D-L Shares (no par value)	4,322,355,540	24.16%	0%
Total Shares	17,891,131,350	100%	100%
<u>Units</u>			
BD Units	2,161,177,770	60.40%	23.47%
B Units	1,417,048,500	39.60%	76.63%
Total Units	3,578,226,270	100%	100%

Trading Markets

Since May 11, 1998, ADSs representing BD Units have been listed on the NYSE, and the BD Units and the B Units have been listed on the Mexican Stock Exchange. Each ADS represents 10 BD Units deposited under the deposit agreement with the ADS depository. As of March 30, 2012, approximately 58% of BD Units traded in the form of ADSs.

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

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

Trading on the Mexican Stock Exchange

The Mexican Stock Exchange, located in Mexico City, is the only stock exchange in Mexico. Founded in 1907, it is organized as a *sociedad anónima bursátil*. Trading on the Mexican Stock Exchange takes place principally through automated systems and is open between the hours of 9:30 a.m. and 4:00 p.m. Eastern Time, each business day. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a

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means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the BD Units that are directly or indirectly (for example, in the form of ADSs) quoted on a stock exchange (including for these purposes the NYSE) outside Mexico.

Settlement is effected three business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the CNBV. Most securities traded on the Mexican Stock Exchange, including ours, are on deposit with *S.D. Ineval Instituto para el Depósito de Valores S.A. de C.V.*, which we refer to as Ineval, a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

Price History

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

	B Units ⁽¹⁾						
	Nominal pesos				Close	US\$ ⁽⁴⁾	Average Daily Trading Volume (Units)
	High ⁽²⁾	Low ⁽²⁾	Close ⁽³⁾	FX rate			
2007	42.33	31.79	37.00	10.92	3.39	1,814	
2008	46.00	32.00	34.99	13.83	2.53	7,286	
2009	57.00	30.50	55.00	13.06	4.21	300	
2010							
First Quarter	55.00	44.00	48.50	12.30	3.94	1,900	
Second Quarter	51.00	45.05	49.97	12.83	3.89	1,881	
Third Quarter	51.99	47.50	50.50	12.63	4.00	1,364	
Fourth Quarter	57.99	49.50	57.98	12.38	4.68	1,629	
2011							
First Quarter	57.99	50.00	51.50	11.92	4.32	2,062	
Second Quarter	58.00	51.50	58.00	11.72	4.95	975	
Third Quarter	71.00	59.00	71.00	13.77	5.16	2,597	
Fourth Quarter	81.00	78.05	78.05	13.96	5.59	795	
October	81.00	79.00	79.00	13.17	6.00	1,880	
November	79.00	79.00	79.00	13.62	5.80	975	
December	78.05	78.05	78.05	13.95	5.59	8,300	
2012							
January	78.00	75.00	75.00	13.04	5.75	3,182	
February	76.00	75.00	76.00	12.79	5.94	807	
March	82.00	80.50	80.50	12.81	6.28	167	
First Quarter	82.00	75.00	80.50	12.81	6.28	872	

- (1) The prices and average daily trading volume for the B Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
- (2) High and low closing prices for the periods presented.
- (3) Closing price on the last day of the periods presented.
- (4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the B Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the Federal Reserve Bank of New York using the period-end exchange rate.

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	BD Units ⁽¹⁾					Average Daily Trading Volume (Units)
	Nominal pesos			FX rate	Close US\$ ⁽⁴⁾	
	High ⁽²⁾	Low ⁽²⁾	Close ⁽³⁾			
2007	48.58	32.73	41.70	10.92	3.82	3,889,800
2008	49.19	26.10	41.37	13.83	2.99	3,089,044
2009	63.20	30.49	62.65	13.06	4.80	3,011,747
2010						
First Quarter	64.39	53.33	59.03	12.30	4.80	4,213,385
Second Quarter	58.94	53.22	55.68	12.83	4.34	3,066,006
Third Quarter	66.14	55.79	63.66	12.63	5.04	3,526,727
Fourth Quarter	71.21	62.58	69.32	12.38	5.60	3,177,203
2011						
First Quarter	70.61	64.01	69.85	11.92	5.86	2,562,803
Second Quarter	77.79	70.52	77.79	11.72	6.64	2,546,271
Third Quarter	91.39	75.28	90.16	13.77	6.55	3,207,475
Fourth Quarter	97.80	87.05	97.02	13.96	6.95	2,499,269
October	94.80	88.26	89.40	13.17	6.79	2,491,967
November	92.76	87.05	92.76	13.62	6.81	3,160,130
December	97.80	90.07	97.02	13.95	6.95	1,877,181
2012						
January	98.04	88.64	91.33	13.04	7.00	2,777,054
February	96.59	92.65	94.47	12.79	7.38	3,352,297
March	105.33	93.98	105.33	12.81	8.22	2,494,913
First Quarter	105.33	88.64	105.33	12.81	8.22	2,865,624

- (1) The prices and average daily trading volume for the BD Units were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.
- (2) High and low closing prices for the periods presented.
- (3) Closing price on the last day of the periods presented.
- (4) Represents the translation from Mexican pesos to U.S. dollars of the closing price of the BD Units on the last day of the periods presented based on the noon buying rate for the purchase of U.S. dollars, as reported by the Federal Reserve Bank of New York using the period-end exchange rate.

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	ADSs ⁽¹⁾			Average Daily Trading Volume (ADSs)
	U.S. dollars			
	High ⁽²⁾	Low ⁽²⁾	Close ⁽³⁾	
2007	44.42	29.96	38.17	1,350,303
2008	49.39	19.25	30.13	1,321,098
2009	49.00	19.91	47.88	1,188,775
2010				
First Quarter	50.01	40.82	47.53	1,394,455
Second Quarter	48.14	40.49	42.89	854,938
Third Quarter	52.09	42.78	50.43	752,792
Fourth Quarter	57.38	49.89	55.92	534,197
October	55.05	49.89	54.91	762,224
November	56.83	53.89	56.55	498,769
December	57.38	55.46	55.92	350,353
2011				
First Quarter	58.93	52.67	58.70	523,823
Second Quarter	66.49	59.60	66.49	519,035
Third Quarter	73.00	61.34	64.82	641,559
Fourth Quarter	72.23	61.73	69.71	527,067
October	72.23	64.36	67.05	634,239
November	68.92	61.73	68.21	560,506
December	69.77	64.81	69.71	386,457
2012				
January	70.52	67.47	70.52	591,823
February	75.18	72.47	73.60	482,579
March	82.27	72.56	82.27	504,965
First Quarter	82.27	52.95	82.27	525,762

(1) Each ADS is comprised of 10 BD Units. Prices and average daily trading volume were taken from Bloomberg and reflect our 3:1 stock split, which was effective May 25, 2007.

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

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

ITEM 10. ADDITIONAL INFORMATION

Bylaws

The following is a summary of the material provisions of our bylaws and applicable Mexican law. Our bylaws were last amended on April 22, 2008. For a description of the provisions of our bylaws relating to our board of directors and executive officers, see “Item 6. Directors, Senior Management and Employees.”

Organization and Registry

We are a *sociedad anónima bursátil de capital variable* organized in Mexico under the Mexican General Corporations Law and the Mexican Securities Law. We were incorporated in 1936 under the name Valores Industriales, S.A., as a *sociedad anónima*, and are currently named Fomento Económico Mexicano, S.A.B. de C.V. We are registered in the *Registro Público de la Propiedad y del Comercio* (Public Registry of Property and Commerce) of Monterrey, Nuevo León.

Voting Rights and Certain Minority Rights

Each Series B Share entitles its holder to one vote at any of our ordinary or extraordinary general shareholders meetings. Our bylaws state that the board of directors must be composed of no more than 21 members. Holders of Series B Shares are entitled to elect at least 11 members of our board of directors. Holders of Series D Shares are entitled to elect five members of our board of directors. Our bylaws also contemplate that, should a conversion of the Series D-L Shares to Series L Shares occur pursuant to the vote of our Series D-B and Series D-L shareholders at special and extraordinary shareholders meetings, the holders of Series D-L shares (who would become holders of newly-issued Series L Shares) will be entitled to elect two members of the board of directors. None of our shares has cumulative voting rights, which is a right not regulated under Mexican law.

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

Holders of Series D Shares are also entitled to vote on the matters that they are expressly authorized to vote on by the Mexican Securities Law and at any extraordinary shareholders meeting called to consider any of the following matters:

- To approve a conversion of all of the outstanding Series D-B Shares and Series D-L Shares into Series B shares with full voting rights and Series L Shares with limited voting rights, respectively.
- To agree to the unbundling of their share Units.

This conversion and/or unbundling of shares would become effective two (2) years after the date on which the shareholders agreed to such conversion and/or unbundling.

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

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The Mexican Securities Law, the Mexican General Corporations Law and our bylaws provide for certain minority shareholder protections. These minority protections include provisions that permit:

- holders of at least 10% of our outstanding capital stock entitled to vote, including in a limited or restricted manner, to require the chairman of the board of directors or of the Audit or Corporate Practices Committees to call a shareholders' meeting;
- holders of at least 5% of our outstanding capital stock, including limited or restricted vote, may bring an action for liabilities against our directors, the secretary of the board of directors or the relevant officers;
- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, at any shareholders meeting to request that resolutions with respect to any matter on which they considered they were not sufficiently informed be postponed;
- holders of 20% of our outstanding capital stock to oppose any resolution adopted at a shareholders meeting in which they are entitled to vote, including limited or restricted vote, and file a petition for a court order to suspend the resolution temporarily within 15 days following the adjournment of the meeting at which the action was taken, provided that (1) the challenged resolution violates Mexican law or our bylaws, (2) the opposing shareholders neither attended the meeting nor voted in favor of the challenged resolution and (3) the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder; and
- holders of at least 10% of our outstanding capital stock who are entitled to vote, including limited or restricted vote, to appoint one member of our board of directors and one alternate member of our board of directors.

Shareholders Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary meetings are those called to consider certain matters specified in Article 182 and 228 BIS of the Mexican General Corporations Law, Articles 53 and 108(II) of the Mexican Securities Law and in our bylaws. These matters include: amendments to our bylaws, liquidation, dissolution, merger and transformation from one form of corporate organization to another, issuance of preferred stock and increases and reductions of the fixed portion of our capital stock. In addition, our bylaws require an extraordinary meeting to consider the cancellation of the registration of shares with the Mexican Registry of Securities, or RNV or with other foreign stock exchanges on which our shares may be listed, the amortization of distributable earnings into capital stock, and an increase in our capital stock in terms of the Mexican Securities Law. General meetings called to consider all other matters, including increases or decreases affecting the variable portion of our capital stock, are ordinary meetings. An ordinary meeting must be held at least once each year within the first four months following the end of the preceding fiscal year. Holders of BD Units or B Units are entitled to attend all shareholders meetings of the Series B Shares and Series D Shares and to vote on matters that are subject to the vote of holders of the underlying shares.

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

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

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Shareholders meetings may be called by the board of directors, the audit committee or the corporate practices committee and, under certain circumstances, a Mexican court. Holders of 10% or more of our capital stock may require the chairman of the board of directors, or the chairman of the audit or corporate practices committees to call a shareholders meeting. A notice of meeting and an agenda must be published in the *Periódico Oficial del Estado de Nuevo León* (Official State Gazette of Nuevo León, or the Official State Gazette) or a newspaper of general circulation in Monterrey, Nuevo León, Mexico at least 15 days prior to the date set for the meeting. Notices must set forth the place, date and time of the meeting and the matters to be addressed and must be signed by whoever convened the meeting. Shareholders meetings will be deemed validly held and convened without a prior notice or publication whenever all the shares representing our capital stock are fully represented. All relevant information relating to the shareholders meeting must be made available to shareholders starting on the date of publication of the notice. To attend a meeting, shareholders must deposit their shares with the company or with Indeval or an institution for the deposit of securities prior to the meeting as indicated in the notice. If entitled to attend a meeting, a shareholder may be represented by an attorney-in-fact.

In addition to the provisions of the Mexican General Corporations Law, the ordinary shareholders meeting shall be convened to approve any transaction that, in a fiscal year, represents 20% or more of the consolidated assets of the company as of the immediately prior quarter, whether such transaction is executed in one or several operations. All shareholders shall be entitled to vote on in such ordinary shareholders meeting, including those with limited or restricted voting rights.

Dividend Rights

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

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.

Change in Capital

Our outstanding capital stock consists of both a fixed and a variable portion. The fixed portion of our capital stock may be increased or decreased only by an amendment of the bylaws adopted by an extraordinary shareholders meeting. The variable portion of our capital stock may be increased or decreased by resolution of an ordinary shareholders meeting. Capital increases and decreases must be recorded in our share registry and book of capital variations, if applicable.

A capital stock increase may be effected through the issuance of new shares for payment in cash or in kind, or by capitalization of indebtedness or of certain items of stockholders' equity. Treasury stock may only be sold pursuant to a public offering.

Any increase or decrease in our capital stock or any redemption or repurchase will be subject to the following limitations: (1) Series B Shares will always represent at least 51% of our outstanding capital stock and the Series D-L Shares and Series L Shares will never represent more than 25% of our outstanding capital stock; and (2) the Series D-B, Series D-L and Series L Shares will not exceed, in the aggregate, 49% of our outstanding capital stock.

Preemptive Rights

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

Our bylaws provide that shareholders will not have preemptive rights to subscribe shares in the event of a capital stock increase or listing of treasury stock in the following events: (i) merger of the Company; (ii) conversion of obligations in terms of the Mexican General Credit Instruments and Credit Operations Law (*Ley General de Títulos y Operaciones de Crédito*); (iii) public offering in terms of articles 53, 56 and related provisions of the Mexican Securities Law; and (iv) capital increase made through the payment in kind of the issued shares or through the cancellation of debt of the Company.

Limitations on Share Ownership

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

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

Management of the Company

Management of the company is entrusted to the board of directors and also to the chief executive officer, who is required to follow the strategies, policies and guidelines approved by the board of directors and the authority, obligations and duties expressly authorized in the Mexican Securities Law.

At least 25% of the members of the board of directors shall be independent. Independence of the members of the board of directors is determined by the shareholders meeting, subject to the CNBV's challenge of such determination. In the performance of its responsibilities, the board of directors will be supported by a corporate practices committee and an audit committee. The corporate practices committee and the audit committee consist solely of independent directors. Each committee is formed by at least three board members appointed by the shareholders or by the board of directors. The chairmen of said committees are appointed (taking into consideration their experience, capacity and professional prestige) and removed exclusively by a vote in a shareholders meeting or by the board of directors.

Surveillance

Surveillance of the company is entrusted to the board of directors, which shall be supported in the performance of these functions by the corporate practices committee, the audit committee and our external auditor. The external auditor may be invited to attend board of directors meetings as an observer, with a right to participate but without voting rights.

Authority of the Board of Directors

The board of directors is our legal representative and is authorized to take any action in connection with our operations not expressly reserved to our shareholders. Pursuant to the Mexican Securities Law, the board of directors must approve, *observing at all moments their duty of care and duty of loyalty*, among other matters:

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

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

Redemption

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

Repurchase of Shares

According to our bylaws, subject to the provisions of the Mexican Securities Law and under rules promulgated by the CNBV, we may repurchase our shares.

In accordance with the Mexican Securities Law, our subsidiaries may not purchase, directly or indirectly, shares of our capital stock or any security that represents such shares.

Forfeiture of Shares

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

Duration

The bylaws provide that the duration of our company is 99 years, commencing on May 30, 1936, unless extended by a resolution of an extraordinary shareholders meeting.

Appraisal Rights

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

Delisting of Shares

In the event of a cancellation of the registration of any of our shares with the RNV, whether by order of the CNBV or at our request with the prior consent of 95% of the holders of our outstanding capital stock, our bylaws and the new Mexican Securities Law require us to make a public offer to acquire these shares prior to their cancellation.

Liquidation

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

Actions Against Directors

Shareholders (including holders of Series D-B and Series D-L Shares) representing, in the aggregate, not less than 5% of our capital stock may directly bring an action against directors.

In the event of actions derived from any breach of the duty of care and the duty of loyalty, liability is exclusively in favor of the company. The Mexican Securities Law establishes that liability may be imposed on the members and the secretary of the board of directors, as well as to the relevant officers.

Notwithstanding, the Mexican Securities Law provides that the members of the board of directors will not incur, individually or jointly, liability for damages and losses caused to the company, when their acts were made in good faith, in any of the following events (1) the directors complied with the requirements of the Mexican Securities Law and with the company's bylaws, (2) the decision making or voting was based on information provided by the relevant officers, the external auditor or the independent experts, whose capacity and credibility do not offer reasonable doubt; (3) the negative economic effects could not have been foreseen, based on the information available; and (4) they comply with the resolutions of the shareholders' meeting when such resolutions comply with applicable law.

Fiduciary Duties—Duty of Care

The Mexican Securities Law provides that the directors shall act in good faith and in our best interest and in the best interest of our subsidiaries. In order to fulfill its duty, the board of directors may:

- request information about us or our subsidiaries that is reasonably necessary to fulfill its duties;
- require our officers and certain other persons, including the external auditors, to appear at board of directors' meetings to report to the board of directors;
- postpone board of directors' meetings for up to three days when a director has not been given sufficient notice of the meeting or in the event that a director has not been provided with the information provided to the other directors; and
- require a matter be discussed and voted upon by the full board of directors in the presence of the secretary of the board of directors.

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Our directors may be liable for damages for failing to comply their duty of care if such failure causes economic damage to us or our subsidiaries and the director (1) failed to attend, board of directors' or committee meetings and as a result of, such failure, the board of directors was unable to take action, unless such absence is approved by the shareholders meeting, (2) failed to disclose to the board of directors or the committees material information necessary for the board of directors to reach a decision, unless legally or contractually prohibited from doing so in order to maintain confidentiality, and (3) failed to comply with the duties imposed by the Mexican Securities Law or our bylaws.

Fiduciary Duties—Duty of Loyalty

The Mexican Securities Law provides that the directors and secretary of the board of directors shall keep confidential any non-public information and matters about which they have knowledge as a result of their position. Also, directors should abstain from participating, attending or voting at meetings related to matters where they have a conflict of interest.

The directors and secretary of the board of directors will be deemed to have violated the duty of loyalty, and will be liable for damages, when they obtain an economic benefit by virtue of their position. Further, the directors will fail to comply with their duty of loyalty if they:

- vote at a board of directors' meeting or take any action on a matter involving our assets where there is a conflict of interest;
- fail to disclose a conflict of interest during a board of directors' meeting;
- enter into a voting arrangement to support a particular shareholder or group of shareholders against the other shareholders;
- approve of transactions without complying with the requirements of the Mexican Securities Law;
- use company property in violation of the policies approved by the board of directors;
- unlawfully use material non-public information; and
- usurp a corporate opportunity for their own benefit or the benefit of third parties, without the prior approval of the board of directors.

Limited Liability of Shareholders

The liability of shareholders for our company's losses is limited to their shareholdings in our company.

Taxation

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

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

Mexican Taxation

For purposes of this summary, the term “non-resident holder” means a holder that is not a resident of Mexico for tax purposes and that does not hold our ADSs in connection with the conduct of a trade or business through a permanent establishment for tax purposes in Mexico. For purposes of Mexican taxation, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has another home outside Mexico, but his or her *Centro de Intereses Vitales* (Center of Vital Interests) (as defined in the Mexican Tax Code) is located in Mexico and, among other circumstances, more than 50% of that person’s total income during a calendar year comes from within Mexico. A legal entity is a resident of Mexico if it has either its principal place of business or its place of effective management in Mexico. A Mexican citizen is presumed to be a resident of Mexico unless he or she can demonstrate that the contrary is true. If a legal entity or an individual is deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable tax laws.

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

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

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

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

United States Taxation

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

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into U.S. dollars on the date of receipt, a U.S. holder generally should not be required to recognize foreign currency gain or loss in respect of the dividends. U.S. holders should consult their tax advisors regarding the treatment of the foreign currency gain or loss, if any, on any Mexican pesos received that are converted into U.S. dollars on a date subsequent to the date of receipt. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. holder in respect of the ADSs for taxable years beginning before January 1, 2013 is subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on the ADSs will be treated as qualified dividends if (1) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (2) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company. The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. Based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a passive foreign investment company for U.S. federal income tax purposes with respect to our 2011 taxable year. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a passive foreign investment company for our 2012 taxable year. Dividends generally will constitute foreign source “passive income” for U.S. foreign tax credit purposes.

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

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

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

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

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

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

Material Contracts

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

Material Contracts Relating to Coca-Cola FEMSA

Shareholders Agreement

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

In February 2010, Coca-Cola FEMSA's main shareholders, FEMSA and The Coca-Cola Company, amended the shareholders agreement, and Coca-Cola FEMSA's bylaws were amended accordingly. The amendment mainly relates to changes in the voting requirements for decisions on: (1) ordinary operations within an annual business plan and (2) appointment of the chief executive officer and all officers reporting to him, all of which now may be taken by the board of directors by simple majority voting. Also, the amendment provides that payment of dividends, up to an amount equivalent to 20% of the preceding years' retained earnings, may be approved by a simple majority of the shareholders. Any decision on extraordinary matters, as they are defined in Coca-Cola FEMSA's bylaws and which include, among other things, any new business acquisition or business combinations in an amount exceeding US\$ 100 million and outside the ordinary operations contained in the annual business plan, or any change in the existing line of business, shall require the approval of the majority of the members of the board of directors, with the vote of two of the members appointed by The Coca-Cola Company. Also, any decision related to such extraordinary matters or any payment of dividends above 20% of the preceding years' retained earnings shall require the approval of the majority of the shareholders of each of Coca-Cola FEMSA's Series A and Series D Shares voting together as a single class, a majority of which must include the majority of the Coca-Cola FEMSA Series D shareholders.

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

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

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

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

The Coca-Cola Memorandum

In connection with the acquisition of Panamco, in 2003, Coca-Cola FEMSA established certain understandings primarily relating to operational and business issues with both The Coca-Cola Company and our company that were memorialized in writing prior to completion of the acquisition. Although the memorandum has not been amended, Coca-Cola FEMSA continues to develop its relationship with The Coca-Cola Company (through, *inter alia*, acquisitions and taking on new product categories), and Coca-Cola FEMSA therefore believes that the memorandum should be interpreted in the context of subsequent events, some of which have been noted in the description below. The terms are as follows:

- The shareholder arrangements between directly wholly-owned subsidiaries of our company and The Coca-Cola Company will continue in place. On February 1, 2010, FEMSA amended its shareholders agreement with The Coca-Cola Company. See "—Shareholders Agreement."
- We will continue to consolidate Coca-Cola FEMSA's financial results under IFRS.
- The Coca-Cola Company and our company will continue to discuss in good faith the possibility of implementing changes to Coca-Cola FEMSA's capital structure in the future.
- There will be no changes in concentrate pricing or marketing support by The Coca-Cola Company up to May 2004. After such time, The Coca-Cola Company has complete discretion to implement any changes with respect to these matters, but any decision in this regard will be discussed with Coca-Cola FEMSA and will take Coca-Cola FEMSA's operating condition into consideration. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Brazil beginning in 2006 and in Mexico beginning in 2007. These increases were fully implemented in Brazil 2008 and in Mexico in 2009.
- The Coca-Cola Company may require the establishment of a different long-term strategy for Brazil. If, after taking into account our performance in Brazil, The Coca-Cola Company does not consider us to be part of this long-term strategic solution for Brazil, then we will sell our Brazilian franchise to The Coca-Cola Company or its designee at fair market value. Fair market value would be determined by independent investment bankers retained by each party at their own expense pursuant to specified procedures. Coca-Cola FEMSA currently believes the likelihood of this term applying is remote.
- FEMSA, The Coca-Cola Company and Coca-Cola FEMSA will meet to discuss the optimal Latin American territorial configuration for the Coca-Cola bottler system. During these meetings, Coca-Cola FEMSA will consider all possible combinations and any asset swap transactions that may arise from these discussions. In addition, Coca-Cola FEMSA will entertain any potential combination as long as it is strategically sound and done at fair market value.

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- Coca-Cola FEMSA would like to keep open strategic alternatives that relate to the integration of sparkling beverages and beer. The Coca-Cola Company, our company and Coca-Cola FEMSA would explore these alternatives on a market-by-market basis at the appropriate time.
- The Coca-Cola Company agreed to sell to a subsidiary of our company sufficient shares to permit FEMSA to beneficially own 51% of Coca-Cola FEMSA's outstanding capital stock (assuming that this subsidiary of FEMSA does not sell any shares and that there are no issuances of Coca-Cola FEMSA's stock other than as contemplated by the acquisition). As a result of this understanding, on November 3, 2006, FEMSA acquired, through a subsidiary, 148,000,000 of Coca-Cola FEMSA's Series D shares from certain subsidiaries of The Coca-Cola Company, representing 9.4% of the total outstanding voting shares and 8.02% of the total outstanding equity of Coca-Cola FEMSA, for an aggregate amount of US\$ 427.4 million. Pursuant to Coca-Cola FEMSA's bylaws, the acquired shares were converted from Coca-Cola FEMSA Series D Shares to Coca-Cola FEMSA Series A Shares.
- Coca-Cola FEMSA may be entering some markets where significant infrastructure investment may be required. The Coca-Cola Company and FEMSA will conduct a joint study that will outline strategies for these markets, as well as the investment levels required to execute these strategies. Subsequently, it is intended that our company and The Coca-Cola Company will reach agreement on the level of funding to be provided by each of the partners. The parties intend that this allocation of funding responsibilities would not be overly burdensome for either partner.
- Coca-Cola FEMSA entered into a stand-by credit facility, on December 19, 2003 with The Coca-Cola Export Corporation, which expired in December 2006 and was never used.

Cooperation Framework with The Coca-Cola Company

On September 1, 2006, Coca-Cola FEMSA and The Coca-Cola Company reached a comprehensive cooperation framework for a new stage of collaboration going forward. This new framework includes the main aspects of Coca-Cola FEMSA's relationship with The Coca-Cola Company and defines the terms for the new collaborative business model. The framework is structured around three main objectives, which have been implemented as outlined below.

- *Sustainable growth of sparkling beverages, still beverages and bottled water:* Together with The Coca-Cola Company, Coca-Cola FEMSA has defined a platform to jointly pursue incremental growth in the sparkling beverage category, as well as accelerated development of still beverages and bottled water across Latin America. To this end, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase for marketing support of the entire portfolio. In addition, the framework contemplates a new, all-encompassing business model for the development of still beverages that further aligns Coca-Cola FEMSA's and The Coca-Cola Company's objectives and should contribute to incremental long-term value creation at both companies. With this objective in mind, Coca-Cola FEMSA has jointly acquired the *Brisa* bottled water business in Colombia, it has formalized a joint venture with respect to the *Jugos del Valle* products in Mexico and Brazil, and has formalized its agreements to develop the *Crystal* water business and the *Matte Leão* business in Brazil jointly with other bottlers and the business of *Estrella Azul* in Panama. In addition, during 2011, Coca-Cola FEMSA and The Coca-Cola Company formalized a joint venture to develop certain coffee products in Coca-Cola FEMSA's territories.
- *Horizontal growth:* The framework includes The Coca-Cola Company's endorsement of Coca-Cola FEMSA's aspiration to continue being a leading participant in the consolidation of the Coca-Cola system in Latin America, as well as the exploration of potential opportunities in other markets where Coca-Cola FEMSA's operating model and strong execution capabilities could be leveraged. For example, in 2008 Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire from it REMIL, which was The Coca-Cola Company's wholly-owned bottling franchise in the majority of the State of Minas Gerais of Brazil.

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- *Long-term vision in relationship economics:* Coca-Cola FEMSA and The Coca-Cola Company understand each other's business objectives and growth plans, and the new framework provides long-term perspective on the economics of their relationship. This will allow Coca-Cola FEMSA and The Coca-Cola Company to focus on continuing to drive the business forward and generating profitable growth.

Bottler Agreements

Bottler agreements are the standard agreements for each territory that The Coca-Cola Company enters into with bottlers outside the United States. Coca-Cola FEMSA manufactures, packages, distributes and sells sparkling beverages, bottled still beverages and water under a separate bottler agreement for each of its territories. Coca-Cola FEMSA is required to purchase concentrate and artificial sweeteners in some of its territories for all *Coca-Cola* trademark beverages from companies designated by The Coca-Cola Company.

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

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

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

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- maintain plant and equipment, staff and distribution facilities capable of manufacturing, packaging and distributing the *Coca-Cola* trademark beverages in authorized containers in accordance with Coca-Cola FEMSA bottler agreements and in sufficient quantities to satisfy fully the demand in its territories;
- undertake adequate quality control measures prescribed by The Coca-Cola Company;
- develop, stimulate and satisfy fully the demand for *Coca-Cola* trademark beverages using all approved means, which includes the investment in advertising and marketing plans;
- maintain a sound financial capacity as may be reasonably necessary to assure performance by Coca-Cola FEMSA and its affiliates of their obligations to The Coca-Cola Company; and
- submit annually, to The Coca-Cola Company, Coca-Cola FEMSA's marketing, management, promotional and advertising plans for the ensuing year.

The Coca-Cola Company contributed a significant portion of Coca-Cola FEMSA's total marketing expenses in its territories during 2011 and has reiterated its intention to continue providing such support as part of its new cooperation framework. Although Coca-Cola FEMSA believes that The Coca-Cola Company will continue to provide funds for advertising and marketing, it is not obligated to do so. Consequently, future levels of advertising and marketing support provided by The Coca-Cola Company may vary materially from the levels historically provided. See "—Shareholders Agreement."

Coca-Cola FEMSA has separate bottler agreements with The Coca-Cola Company for each of the territories in which it operates. These bottler agreements are renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement.

As of December 31, 2011, Coca-Cola FEMSA had seven bottler agreements in Mexico, with each one corresponding to a different territory as follows: (i) the agreements for Mexico's Valley territory expire in June 2013 and April 2016; (ii) the agreements for the Central territory expire in May 2015 and July 2016; (iii) the agreement for the Northeast territory expires in September 2014; (iv) the agreement for the Bajío territory expires in May 2015; and (v) the agreement for the Southeast territory expires in June 2013. Coca-Cola FEMSA's bottler agreements with The Coca-Cola Company will expire for Coca-Cola FEMSA's territories in other countries as follows: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014.

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

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

Material Contracts Relating to our Holding of Heineken Shares

Share Exchange Agreement

On January 11, 2010, FEMSA and certain of our subsidiaries entered into a share exchange agreement, which we refer to as the Share Exchange Agreement, with Heineken Holding N.V. and Heineken N.V. The Share Exchange Agreement required Heineken N.V., in consideration for 100% of the shares of EMPREX Cerveza, S.A. de C.V. (now Heineken Mexico Holding, S.A. de C.V.), which we refer to as EMPREX Cerveza, to deliver at the closing of the Heineken transaction 86,028,019 newly-issued Heineken N.V. shares to FEMSA with a commitment to deliver, pursuant to the ASDI, 29,172,504 Allotted Shares over a period of not more than five years from the date of the closing of the Heineken transaction. As of October 5, 2011, we had received the totality of the Allotted Shares.

The Share Exchange Agreement provided that, simultaneously with the closing of the transaction, Heineken Holding N.V. would swap 43,018,320 Heineken N.V. shares with FEMSA for an equal number of newly issued Heineken Holding N.V. shares. After the closing of the Heineken transaction, we owned 7.5% of Heineken N.V.'s shares. This percentage increased to 12.53% upon full delivery of the Allotted Shares and, together with our ownership of 14.94% of Heineken Holding N.V.'s shares, represents an aggregate 20% economic interest in the Heineken Group.

Under the terms of the Share Exchange Agreement, in exchange for such economic interest in the Heineken Group, FEMSA delivered 100% of the shares representing the capital stock of EMPREX Cerveza, which owned 100% of the shares of FEMSA Cerveza. As a result of the transaction, EMPREX Cerveza and FEMSA Cerveza became wholly-owned subsidiaries of Heineken.

The principal provisions of the Share Exchange Agreement are as follows:

- delivery to Heineken N.V., by FEMSA, of 100% of the outstanding share capital of EMPREX Cerveza, which together with its subsidiaries, constitutes the entire beer business and operations of FEMSA in Mexico and Brazil (including the United States and other export business);
- delivery to FEMSA by Heineken N.V. of 86,028,019 new Heineken N.V. shares;
- simultaneously with the closing of the Heineken transaction, a swap between Heineken Holding N.V. and FEMSA of 43,018,320 Heineken N.V. shares for an equal number of newly issued shares in Heineken Holding N.V.;
- the commitment by Heineken N.V. to assume indebtedness of EMPREX Cerveza and subsidiaries amounting to approximately US\$2.1 billion;
- the provision by FEMSA to the Heineken Group of indemnities customary in transactions of this nature concerning FEMSA and FEMSA Cerveza and its subsidiaries and their businesses;
- FEMSA's covenants to operate the EMPREX Cerveza business in the ordinary course consistent with past practice until the closing of the transaction, subject to customary exceptions, with the economic risks and benefits of the EMPREX Cerveza business transferring to Heineken as of January 1, 2010;
- the provision by Heineken N.V. and Heineken Holding N.V. to FEMSA of indemnities customary in transactions of this nature concerning the Heineken Group; and
- FEMSA's covenants, subject to certain limitations, to not engage in the production, manufacture, packaging, distribution, marketing or sale of beer and similar beverages in Latin America, the United States, Canada and the Caribbean.

Corporate Governance Agreement

On April 30, 2010, FEMSA, CB Equity (as transferee of the Heineken N.V. & Heineken Holding N.V. Exchange Shares and Allotted Shares), Heineken N.V. Heineken Holding N.V. and L'Arche Green N.V., as majority shareholder of Heineken Holding N.V., entered into the corporate governance agreement, which we refer to as the Corporate Governance Agreement, which establishes the terms of the relationship between Heineken and FEMSA after the closing of the Heineken transaction.

The Corporate Governance Agreement covers, among other things, the following topics:

- FEMSA's representation on the Heineken Holding Board and the Heineken Supervisory Board and the creation of an Americas committee, also with FEMSA's representation;
- FEMSA's representation on the selection and appointment committee and the audit committee of the Heineken Supervisory Board;
- FEMSA's commitment to not increase its holding in Heineken Holding N.V. above 20% and to not increase its holding in the Heineken Group above a maximum 20% economic interest (subject to certain exceptions); and
- FEMSA's agreement to not transfer any shares in Heineken N.V. or Heineken Holding N.V. for a five-year period, subject to certain exceptions, including among others, (i) beginning in the third anniversary, the right to sell up to 1% of all outstanding shares of each of Heineken N.V. and Heineken Holding N.V. in any calendar quarter and (ii) beginning in the third anniversary, the right to dividend or distribute to its shareholders each of Heineken N.V. and Heineken Holding N.V. shares.

Under the Corporate Governance Agreement, FEMSA is entitled to nominate two representatives to the Heineken Supervisory Board, one of whom will be appointed as Vice Chairman of the board of Heineken N.V. and will also serve as a representative of FEMSA on the Heineken Holding N.V. Board of Directors. Our nominees for appointment to the Heineken Supervisory Board were José Antonio Fernández Carbajal, our Chairman and Chief Executive Officer, and Javier Astaburuaga Sanjines, our Chief Financial Officer, who were both approved by Heineken N.V.'s general meeting of shareholders. Mr. José Antonio Fernández was also approved to the Heineken Holding N.V. Board of Directors by the general meeting of shareholders of Heineken Holding N.V.

In addition, the Heineken Supervisory Board has created an Americas committee to oversee the strategic direction of the business in the American continent and assess new business opportunities in that region. The Americas committee consists of two existing members of the Heineken Supervisory Board and one FEMSA representative, who acts as the chairman. The chairman of the Americas committee is José Antonio Fernández Carbajal, our Chairman and Chief Executive Officer.

The Corporate Governance Agreement has no fixed term, but certain provisions cease to apply if FEMSA ceases to have the right to nominate a representative to the Heineken Holding N.V. Board of Directors and the Heineken N.V. Supervisory Board. For example, in certain circumstances, FEMSA would be entitled to only one representative on the Heineken Supervisory Board, including in the event that FEMSA's economic interest in the Heineken Group were to fall below 14%, the current FEMSA control structure were to change or FEMSA were to be subject to a change of control. In the event that FEMSA's economic interest in Heineken falls below 7% or a beer producer acquires control of FEMSA, all of FEMSA's corporate governance rights would end pursuant to the Corporate Governance Agreement.

Documents on Display

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

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. At December 31, 2011, we had outstanding total debt of Ps. 29,604 million, of which 47% bore interest at fixed interest rates and 53% bore interest at variable interest rates. Swap contracts held by us effectively switch a portion of our variable rate indebtedness into fixed-rate indebtedness. After giving effect to these contracts, as of December 31, 2011, 59% of our total debt was fixed rate and 41% of our total debt was variable rate. The interest rate on our variable rate debt is determined by reference to the London Interbank Offered Rate, or LIBOR, (a benchmark rate used for Eurodollar loans), the *Tasa de Interés Interbancaria de Equilibrio* (Equilibrium Interbank Interest Rate, or TIIE), and the *Certificados de la Tesorería* (Treasury Certificates, or CETES) rate. If these reference rates increase, our interest payments would consequently increase.

The table below provides information about our derivative financial instruments that are sensitive to changes in interest rates and exchange rates. The table presents notional amounts and weighted average interest rates by expected contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract. Weighted average variable rates are based on the reference rates on December 31, 2011, plus spreads contracted by us. Our derivative financial instruments' current payments are denominated in U.S. dollars and Mexican pesos. All of the payments in the table are presented in Mexican pesos, our reporting currency, utilizing the December 30, 2011 exchange rate of Ps. 13.9510 per U.S. dollar.

The table below also includes the estimated fair value as of December 31, 2011 of:

- short and long-term debt, based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt with similar terms and remaining maturities;
- long-term notes payable and capital leases, based on quoted market prices; and
- cross currency swaps and interest rate swaps, based on quoted market prices to terminate the contracts as of December 31, 2011.

As of December 31, 2011, the fair value represents an increase in total debt of Ps. 698 million more than book value due to an increase in the interest rate in Mexico.

Principal by Year of Maturity

	At December 31, 2011								At December 31, 2010	
	2012	2013	2014	2015	2016	2017 and thereafter	Carrying Value	Fair Value	Carrying Value	Fair Value
(in millions of Mexican pesos, except for percentages)										
Short-term debt:										
Fixed rate debt:										
Mexican pesos	18	—	—	—	—	—	18	18	—	—
Interest rate ⁽¹⁾	6.9%						6.9%			
Argentine pesos	325	—	—	—	—	—	325	317	506	506
Interest rate ⁽¹⁾	14.9%						14.9%		15.3%	
Variable rate debt:										
Colombian pesos	295	—	—	—	—	—	295	295	1,072	1,072
Interest rate ⁽¹⁾	6.8%						6.8%		4.4%	—
Subtotal	638	—	—	—	—	—	638	630	1,578	1,578
Long-term debt:										
Fixed rate debt:										
Mexican pesos:										
Domestic senior notes	—	—	—	—	—	2,500	2,500	2,631	—	—
Interest rate ⁽¹⁾						8.3%	8.3%			
Units of Investment (UDIs)	—	—	—	—	—	3,337	3,337	3,337	3,193	3,193
Interest rate ⁽¹⁾						4.2%	4.2%		4.2%	
U.S. dollars:										
Capital leases	—	—	—	—	—	—	—	—	4	4
Interest rate ⁽¹⁾									3.8%	
J.P. Morgan (Yankee Bond)	—	—	—	—	—	6,990	6,990	7,737	6,179	6,179
Interest rate						4.6%	4.6%		4.6%	
Argentine pesos	514	81	—	—	—	—	595	570	684	684
Interest rate ⁽¹⁾	16.4%	15.7%					16.3%		16.5%	
Brazilian reais:										
Bank loans	5	10	10	10	10	36	81	87	102	102
Interest rate ⁽¹⁾	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Capital leases	4	5	5	4	—	—	18	—	21	21

Principal by Year of Maturity

	At December 31, 2011						At December 31, 2010			
	2012	2013	2014	2015	2016	2017 and thereafter	Carrying Value	Fair Value	Carrying Value	Fair Value
Interest rate ⁽¹⁾	4.5%	4.5%	4.5%	4.5%	—	—	4.5%	—	4.5%	—
Subtotal	523	96	15	14	10	12,863	13,521	14,362	10,162	10,162
Variable rate debt:										
Mexican pesos:										
Bank loans	67	266	1,392	2,825	—	—	4,550	4,456	4,550	4,550
Interest rate ⁽¹⁾	5.0%	5.0%	5.0%	5.0%	—	—	5.0%	—	5.1%	—
Domestic senior notes	3,000	3,500	—	—	2,500	—	9,000	8,981	8,000	7,945
Interest rate ⁽¹⁾	4.7%	4.8%	—	—	4.9%	—	4.8%	—	4.8%	—
U.S. dollars	42	209	—	—	—	—	251	251	222	222
Interest rate ⁽¹⁾	0.7%	0.7%	—	—	—	—	0.7%	—	0.6%	—
Argentine pesos	130	—	—	—	—	—	130	116	—	—
Interest rate ⁽¹⁾	27.3%	—	—	—	—	—	27.3%	—	—	—
Brazilian reais	33	39	43	48	30	—	193	193	—	—
Interest rate ⁽¹⁾	11.0%	11.0%	11.0%	11.0%	11.0%	—	11.0%	—	—	—
Colombian pesos:										
Bank loans	935	—	—	—	—	—	935	929	994	994
Interest rate ⁽¹⁾	6.1%	—	—	—	—	—	6.1%	—	4.7%	—
Capital leases	205	181	—	—	—	—	386	384	—	—
Interest rate ⁽¹⁾	7.1%	6.6%	—	—	—	—	6.9%	—	—	—
Subtotal	4,412	4,195	1,435	2,873	2,530	—	15,445	15,310	13,766	13,711
Total long-term debt	4,935	4,291	1,450	2,887	2,540	12,863	28,966	29,672	23,928	23,873

(notional amounts, except for percentages)

Derivative financial instruments:

Interest rate swaps⁽²⁾:

Mexican pesos:

Variable to fixed	1,600	2,500	575	1,963	—	—	6,638	(239)	5,260	(302)
Interest pay rate ⁽¹⁾	8.1%	8.1%	8.4%	8.6%	—	—	8.3%	—	8.1%	—
Interest receive rate ⁽¹⁾	4.7%	4.7%	5.0%	5.0%	—	—	4.9%	—	4.9%	—

Principal by Year of Maturity

	At December 31, 2011						At December 31, 2010			
	2012	2013	2014	2015	2016	2017 and thereafter	Carrying Value	Fair Value	Carrying Value	Fair Value
(in millions of Mexican pesos, except for percentages)										
Cross currency swaps:										
Units of Investment (UDIs) to Mexican pesos and variable rate	—	—	—	—	—	2,500	2,500	860	2,500	717
Interest pay rate ⁽¹⁾						4.6%	4.6%		4.7%	
Interest receive rate ⁽¹⁾						4.2%	4.2%		4.2%	

(1) Weighted average interest rate.

(2) Does not include forwards starting swaps with a notional amount of Ps. 1,312 million and a fair value loss of Ps. 43 million. These contracts will become effective in 2012 and mature in 2013.

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A hypothetical, instantaneous and unfavorable change of one percentage point in the average interest rate applicable to variable-rate liabilities held at December 31, 2011 would increase our variable interest expense by approximately Ps. 98 million, or 6.4%, over the 12-month period of 2011 assuming no additional debt is incurred during such period, in each case after giving effect to all of our interest and cross currency swap agreements.

Foreign Currency Exchange Rate Risk

Our principal exchange rate risk involves changes in the value of the local currencies, of each country in which we operate, relative to the U.S. dollar. In 2011, the percentage of our consolidated total revenues was denominated as follows:

Total Revenues by Currency At December 31, 2011

<u>Region</u>	<u>Currency</u>	<u>% of Consolidated Total Revenues</u>
Mexico and Central America ⁽¹⁾	Mexican peso and others	64%
Venezuela	Bolívar fuerte	10%
South America	Brazilian real, Argentine peso, Colombian peso	26%

(1) Mexican peso, Quetzal, Balboa, Colón and U.S. dollar.

We estimate that a majority of our consolidated costs and expenses are denominated in Mexican pesos for Mexican subsidiaries and in the aforementioned currencies for the foreign subsidiaries, which are principally subsidiaries of Coca-Cola FEMSA. Substantially all of our costs and expenses denominated in a foreign currency, other than the functional currency of each country in which we operate, are denominated in U.S. dollars. As of December 31, 2011, after giving effect to all cross currency swaps, 63% of our long-term indebtedness was denominated in Mexican pesos, 27% was denominated in U.S. dollars, 5% was denominated in Colombian pesos, 4% was denominated in Argentine pesos and 1% was denominated in Brazilian reais. We also have short-term indebtedness, which consists of bank loans in Colombian pesos and Argentine pesos. Decreases in the value of the different currencies relative to the U.S. dollar will increase the cost of our foreign currency denominated operating costs and expenses, and the debt service obligations with respect to our foreign currency-denominated indebtedness. A depreciation of the Mexican peso relative to the U.S. dollar will also result in foreign exchange losses, as the Mexican peso value of our foreign currency-denominated long-term indebtedness is increased.

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

As of December 31, 2011, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our operations denominated in U.S. dollars. The notional amount was Ps. 2,933 million with a fair value asset of Ps. 183 million, with a maturity date during 2012. The fair value of foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for. For the year ended December 31, 2011, a gain of Ps. 21 million was recorded in our consolidated results.

As of December 31, 2010, we had forward agreements that met the hedging criteria for accounting purposes, to hedge our operations denominated in U.S. dollars. The notional amount was Ps. 578 million with a fair value asset of Ps. 2 million, and a notional amount of Ps. 1,690 million with a fair value liability of Ps. 18 million, in each case with a maturity date during 2011. For the year ended December 31, 2010, we recorded a net gain on expired forward agreements of Ps. 27 million as a part of foreign exchange. The fair value of the foreign currency forward contracts is estimated based on the quoted market price of each agreement at year-end assuming the same maturity dates originally contracted for.

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As of December 31, 2009, certain forward agreements did not meet the hedging criteria for accounting purposes; consequently, changes in the estimated fair value were recorded in our consolidated income statement. For the year ended December 31, 2009, the net effect of expired contracts that did not meet hedging criteria for accounting purposes, was a loss of Ps. 63 million. The fair value of the foreign currency forward contracts is estimated based on the quoted market price of each agreement at year end assuming the same maturity dates originally contracted.

As of December 31, 2011, we had options to purchase U.S. dollars to reduce our exposure to the risk of exchange rate fluctuations, with a notional amount of Ps. 1,901 million, for which we have recorded a net fair value asset of Ps. 300 million as part of cumulative other comprehensive income. As of December 31, 2010, we did not have any call option agreements to buy foreign currencies.

As of December 31, 2011, we had cross currency swaps designated as fair value hedges under contracts with an aggregate notional amount of Ps. 2,500 million that expire in 2017, for which we have recorded a net fair value asset of Ps. 860 million. The net effect of our expired contracts for the years ended December 31, 2011, 2010 and 2009 was recorded as interest income of Ps. 8 million in 2011 and Ps. 2 million in 2010, and as interest expense of Ps. 32 million as of December 31, 2009.

For the years ended December 31, 2011, 2010, and 2009, certain cross currency swap instruments did not meet the hedging criteria for accounting purposes; consequently, changes in the estimated fair value were recorded in the income statement. The changes in fair value of these contracts represented a loss of Ps. 146 million, a gain of Ps. 205 million and a gain of Ps. 168 million in 2011, 2010 and 2009, respectively.

As of December 31, 2011, we had determined that our leasing contracts denominated in U.S. dollars host an embedded derivative financial instrument. The fair value of these contracts is based on the exchange rate used to finish the contract as of the end of the period. For the years ended December 31, 2011, 2010 and 2009, the fair value of these contracts resulted in a loss of Ps. 50 million, a gain of Ps. 15 million and a loss of Ps. 19 million, respectively, each of which is recorded in the income statement as market value loss/gain on ineffective portion of derivative financial instruments.

A hypothetical, instantaneous and unfavorable 10% devaluation of the Mexican peso relative to the U.S. dollar occurring on December 31, 2011 would have resulted in an increase in our net consolidated integral result of financing expense of approximately Ps. 203 million over the 12-month period of 2011, reflecting greater losses relating to our U.S dollar-denominated indebtedness, net of a foreign exchange gain, and interest expense generated by the cash balances held by us in U.S. dollars as of that date. However, this result does not take into account any gain on monetary position that would be expected to result from an increase in the inflation rate generated by a devaluation of local currencies relative to the U.S. dollar in inflationary economic environments, which gain on monetary position would reduce the consolidated comprehensive financial result.

As of March 31, 2012, the exchange rates relative to the U.S. dollar of all the countries in which we operate, as well as their devaluation/revaluation effect compared to December 31, 2011, are as follows:

<u>Country</u>	<u>Currency</u>	<u>Exchange Rate as of March 31, 2012</u>	<u>(Devaluation) / Revaluation</u>
Mexico	Mexican peso	12.85	8.1%
Brazil	Brazilian real	7.05	5.4%
Venezuela	Bolívar fuerte	2.99	8.1%
Colombia	Colombian peso	0.01	(0.1)%
Argentina	Argentine peso	2.93	9.7%
Costa Rica	Colón	0.03	7.2%

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<u>Country</u>	<u>Currency</u>	Exchange Rate as of <u>March 31, 2012</u>	(Devaluation) / <u>Revaluation</u>
Guatemala	Quetzal	1.67	6.7%
Nicaragua	Cordoba	0.55	9.2%
Panama	U.S. dollar	1.0000	–
Euro Zone	Euro	17.08	5.4%

A hypothetical, instantaneous and unfavorable 10% devaluation in the value of the currencies of all the countries in which we operate, relative to the U.S. dollar, occurring on December 31, 2011, would produce a reduction in stockholders' equity as follows:

<u>Country</u>	<u>Currency</u>	<u>Reduction in Stockholders' Equity</u> (in millions of Mexican pesos)
Mexico	Mexican peso	203
Brazil	Brazilian real	2,056
Venezuela	Bolívar fuerte	814
Colombia	Colombian peso	1,111
Costa Rica	Colón	373
Argentina	Argentine peso	136
Guatemala	Quetzal	122
Nicaragua	Cordoba	159
Panama	U.S. dollar	232
Euro Zone	Euro	7,504

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Equity Risk

As of December 31, 2011 and 2010, we did not have any equity forward agreements.

Commodity Price Risk

We entered into various derivative contracts to hedge the cost of certain raw materials that are exposed to variations of commodity price exchange rates. As of December 31, 2011, we had various derivative instruments contracts with maturity dates in 2012 and 2013, notional amounts of Ps. 754 million and a fair value liability of Ps. 19 million. The results of our commodity price contracts for the years ended December 31, 2011, 2010 and 2009, were Ps. 257 million, Ps. 393 million and Ps. 247 million, respectively, which were recorded in the results from operations of each year. After discontinuing our beer business, we have no derivative contracts that do not meet hedging criteria for accounting purposes.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

ITEM 12A. DEBT SECURITIES

Not applicable.

ITEM 12B. WARRANTS AND RIGHTS

Not applicable.

ITEM 12C. OTHER SECURITIES

Not applicable.

ITEM 12D. AMERICAN DEPOSITARY SHARES

The Bank of New York Mellon serves as the depositary for our ADSs. Holders of our ADSs, evidenced by ADRs, are required to pay various fees to the depositary, and the depositary may refuse to provide any service for which a fee is assessed until the applicable fee has been paid.

ADS holders are required to pay the depositary amounts in respect of expenses incurred by the depositary or its agents on behalf of ADS holders, including expenses arising from compliance with applicable law, taxes or other governmental charges, cable, telex and facsimile transmission, or the conversion of foreign currency into U.S. dollars. The depositary may decide in its sole discretion to seek payment by either billing holders or by deducting the fee from one or more cash dividends or other cash distributions.

ADS holders are also required to pay additional fees for certain services provided by the depositary, as set forth in the table below.

<u>Depositary service</u>	<u>Fee payable by ADS holders</u>
Issuance and delivery of ADSs, including in connection with share distributions, stock splits	Up to US\$5.00 per 100 ADSs (or portion thereof)
Distribution of dividends ⁽¹⁾	Up to US\$0.02 per ADS
Withdrawal of shares underlying ADSs	Up to US\$5.00 per 100 ADSs (or portion thereof)

(1) As of the date of this annual report, holders of our ADSs were not required to pay additional fees with respect to this service.

Direct and indirect payments by the depositary

The depositary pays us an agreed amount, which includes reimbursements for certain expenses we incur in connection with the ADS program. These reimbursable expenses include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADS holders. For the year ended December 31, 2011, this amount was US\$525,590.

ITEMS 13-14. NOT APPLICABLE

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (or the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Management’s annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control—Integrated Framework,” as issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in “Internal Controls—Integrated Framework,” as issued by the Committee of Sponsoring Organizations of the Treadway Commission, our management concluded that our internal control over financial reporting was effective as of December 31, 2011.

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Our management assessment and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2011 excludes, in accordance with applicable guidance provided by the SEC, an assessment of the internal control over financial reporting of Grupo Tampico and Grupo CIMSA, the beverage divisions of which were acquired by our subsidiary Coca-Cola FEMSA in October 2011 and December 2011, respectively. The beverage divisions of Grupo Tampico and Grupo CIMSA together represented 2.4% and 2.7% of our total and net assets, respectively, as of December 31, 2011, and 0.7% and 0.3% of our revenues and net income, respectively, for the year ended December 31, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Mancera, S.C., a member of Ernst & Young Global, an independent registered public accounting firm, as stated in its report included herein.

(c) Attestation Report of the Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders

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

We have audited Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20F. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20F, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Administradora de Acciones del Noroeste, S.A. de C.V. and its subsidiaries (collectively "Grupo Tampico") and Corporación de los Angeles, S.A. de C.V. and its subsidiaries (collectively "Grupo CIMSA"), acquired in October and December 2011, respectively, which are included in the 2011 consolidated financial statements of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, and constituted 2.4% and 2.7% of Fomento Económico Mexicano, S.A.B. de C.V.'s total and net assets, respectively, as of December 31, 2011 and 0.7% and 0.3% of Fomento Económico Mexicano, S.A.B. de C.V.'s revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries, also did not include an evaluation of the internal control over financial reporting of Grupo Tampico and Grupo CIMSA.

In our opinion, Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011, and our report dated April 27, 2012 expressed an unqualified opinion on those financial statements.

Mancera, S.C.
A Member Practice of
Ernst & Young Global
C.P.C. Agustín Aguilar Laurents

Monterrey, N.L., Mexico
April 27, 2012

(d) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The acquisitions of Grupo CIMSA and Grupo Tampico did not have a material effect on our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

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

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Audit and Non-Audit Fees**

For the fiscal years ended December 31, 2011 and 2010, Mancera, S.C., a member practice of Ernst & Young Global, was our auditor.

The following table summarizes the aggregate fees billed to us in 2011 and 2010 by Mancera, S.C., which is an independent registered public accounting firm, during the fiscal years ended December 31, 2011 and 2010:

	Year ended December 31,	
	2011	2010
	(in millions of Mexican pesos)	
Audit fees	Ps. 83	Ps. 72
Audit-related fees	10	6
Tax fees	8	5
Other fees	—	—
Total	<u>Ps. 101</u>	<u>Ps. 83</u>

Audit fees. Audit fees in the above table represent the aggregate fees billed in connection with the audit of our annual financial statements, as well as to other limited procedures in connection with our quarterly financial information and other statutory and regulatory audit activities.

Audit-related fees. Audit-related fees in the above table for 2011 are the aggregate fees billed for assurance and other services related to the performance of the audit, mainly in connection with special audits and reviews. For 2010, the aggregate audit-related fees billed are mainly associated with the Heineken transaction.

Tax fees. Tax fees in the above table are fees billed for services based upon existing facts and prior transactions in order to document, compute, and obtain government approval for amounts included in tax filings such as value-added tax return assistance and transfer pricing documentation.

Other fees. For the years ended December 31, 2011 and 2010, there were no other fees.

Audit Committee Pre-Approval Policies and Procedures

We have adopted pre-approval policies and procedures under which all audit and non-audit services provided by our external auditors must be pre-approved by the audit committee as set forth in the Audit Committee's charter. Any service proposals submitted by external auditors need to be discussed and approved by the Audit Committee during its meetings, which take place at least four times a year. Once the proposed service is approved, we or our subsidiaries formalize the engagement of services. The approval of any audit and non-audit services to be provided by our external auditors is specified in the minutes of our Audit Committee. In addition, the members of our board of directors are briefed on matters discussed by the different committees of our board of directors.

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ITEM 16D. NOT APPLICABLE

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

We did not purchase any of our equity securities in 2011. The following table presents purchases by trusts that we administer in connection with our stock incentive plans, which purchases may be deemed to be purchases by an affiliated purchaser of us. See “Item 6. Directors, Senior Management and Employees—EVA Stock Incentive Plan.”

Purchases of Equity Securities

<u>Purchase Date</u>	<u>Total Number of BD Units Purchased</u>	<u>Average Price Paid per BD Units</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Appropriate U.S. dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
March 1, 2008	4,592,920	Ps.39.51		
March 1, 2009	5,392,080	Ps.38.76		
March 1, 2010	4,207,675	Ps.55.44		
March 1, 2011	2,438,590	Ps.67.78		
March 1, 2012	2,146,614	Ps.92.36		

ITEM 16F. NOT APPLICABLE

ITEM 16G. CORPORATE GOVERNANCE

Pursuant to Rule 303A.11 of the Listed Company Manual of the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. We are a Mexican corporation with shares listed on the Mexican Stock Exchange. Our corporate governance practices are governed by our bylaws, the Mexican Securities Law and the regulations issued by the CNBV. We also disclose the extent of compliance with the *Código de Mejores Prácticas Corporativas* (Mexican Code of Best Corporate Practices), which was created by a group of Mexican business leaders and was endorsed by the CNBV.

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The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

NYSE Standards

Directors independence: A majority of the board of directors must be independent.

Executive sessions: Non-management directors must meet at regularly scheduled executive sessions without management.

Nominating/Corporate Governance Committee: A nominating/corporate governance committee composed entirely of independent directors is required.

Compensation Committee: A compensation committee composed entirely of independent directors is required.

Our Corporate Governance Practices

Directors independence: Pursuant to the Mexican Securities Law, we are required to have a board of directors with a maximum of 21 members, 25% of whom must be independent.

The Mexican Securities Law sets forth, in article 26, the definition of “independence,” which differs from the one set forth in Section 303A.02 of the Listed Company Manual of the NYSE. Generally, under the Mexican Securities Law, a director is not independent if such director: (i) is an employee or a relevant officer of the company or its subsidiaries; (ii) is an individual with significant influence over the company or its subsidiaries; (iii) is a shareholder or participant of the controlling group of the company; (iv) is a client, supplier, debtor, creditor, partner or employee of an important client, supplier, debtor or creditor of the company; or (v) is a family member of any of the aforementioned persons.

In accordance with the Mexican Securities Law, our shareholders are required to make a determination as to the independence of our directors at an ordinary meeting of our shareholders, though the CNBV may challenge that determination. Our board of directors is not required to make a determination as to the independence of our directors.

Executive sessions: Under our bylaws and applicable Mexican law, our non-management and independent directors are not required to meet in executive sessions.

Our bylaws state that the board of directors will meet at least four times a year, following the end of each quarter, to discuss our operating results and progress in achieving strategic objectives. Our board of directors can also hold extraordinary meetings.

Nominating/Corporate Governance Committee: We are not required to have a nominating committee, and the Mexican Code of Best Corporate Practices does not provide for a nominating committee.

However, Mexican law requires us to have a Corporate Practices Committee. Our Corporate Practices Committee is composed of three members, and as required by the Mexican Securities Law and our bylaws, the three members are independent.

Compensation Committee: We do not have a committee that exclusively oversees compensation issues. Our Corporate Practices Committee, composed entirely of independent directors, reviews and recommends management compensation programs in order to ensure that they are aligned with shareholders’ interests and corporate performance.

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NYSE Standards

Audit Committee: Listed companies must have an audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the NYSE independence standards.

Equity compensation plan: Equity compensation plans require shareholder approval, subject to limited exemptions.

Code of business conduct and ethics: Corporate governance guidelines and a code of conduct and ethics are required, with disclosure of any waiver for directors or executive officers.

ITEM 16H. NOT APPLICABLE

ITEM 17. NOT APPLICABLE

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-144, incorporated herein by reference.

Our Corporate Governance Practices

Audit Committee: We have an Audit Committee of four members. Each member of the Audit Committee is an independent director, as required by the Mexican Securities Law.

Equity compensation plan: Shareholder approval is not required under Mexican law or our bylaws for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives. Our current equity compensation plans have been approved by our board of directors.

Code of business conduct and ethics: We have adopted a code of ethics, within the meaning of Item 16B of SEC Form 20-F. Our code of ethics applies to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions as well as to our directors and other officers and employees. Our code of ethics is available on our website at www.femsa.com. If we amend the provisions of our code of ethics that apply to our Chief Executive Officer, Chief Financial Officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

ITEM 19. EXHIBITS

- 1.1 Bylaws (estatutos sociales) of Fomento Económico Mexicano, S.A.B. de C.V., approved on April 22, 2008, together with an English translation thereof (incorporated by reference to Exhibit 1.1 of FEMSA's Annual Report on Form 20-F filed on June 30, 2008 (File No. 333-08752)).
- 1.2 Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., and FEMSA dated as of January 11, 2010 (incorporated by reference to Exhibit 1.2 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.3 First Amendment to Share Exchange Agreement by and between Heineken Holding N.V., Heineken N.V., Compañía Internacional de Bebidas, S.A. de C.V., Grupo Industrial Emprex, S.A. de C.V., and FEMSA dated as of April 26, 2010 (incorporated by reference to Exhibit 1.3 of FEMSA's Annual Report on Form 20-F filed on June 25, 2010 (File No. 333-08752)).
- 1.4 Corporate Governance Agreement, dated April 30, 2010, between Heineken Holding N.V., Heineken N.V., L'Arche Green N.V., FEMSA and CB Equity LLP.
- 2.1 Deposit Agreement, as further amended and restated as of May 11, 2007, among FEMSA, The Bank of New York, and all owners and holders from time to time of any American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to FEMSA's registration statement on Form F-6 filed on April 30, 2007 (File No. 333-142469)).
- 2.2 Specimen certificate representing a BD Unit, consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, together with an English translation (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 2.3 Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon (incorporated by reference to Exhibit 2.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.4 First Supplemental Indenture dated as of February 5, 2010 among Coca-Cola FEMSA, S.A.B. de C.V., and The Bank of New York Mellon and the Bank of New York Mellon (Luxembourg) S.A. (incorporated by reference to Exhibit 2.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 2.5 Second Supplemental Indenture dated as of April 1, 2011 among Coca-Cola FEMSA, S.A.B. de C.V., Propimex, S. de R.L. de C.V. (formerly Propimex, S.A. de C.V.), as Guarantor, and The Bank of New York Mellon (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 17, 2011 (File No. 001-12260)).
- 3.1 Amended Voting Trust Agreement among certain principal shareholders of FEMSA together with an English translation (incorporated by reference to FEMSA's Schedule 13D as amended filed on August 11, 2005 (File No. 005-54705)).
- 4.1 Amended and Restated Shareholders' Agreement, dated as of July 6, 2002, by and among CIBSA, Emprex, The Coca-Cola Company and Inmex (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).
- 4.2 Amendment, dated May 6, 2003, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex, Atlantic Industries, Dulux CBAI 2003 B.V. and Dulux CBEXINMX 2003 B.V. (incorporated by reference to Exhibit 4.14 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 27, 2003 (File No. 1-12260)).

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- 4.3 Second Amendment, dated February 1, 2010, to the Amended and Restated Shareholders' Agreement dated July 6, 2002, among CIBSA, Emprex, The Coca-Cola Company, Inmex and Dulux CBAI 2003 B.V. (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 10, 2010 (File No. 1-12260)).
- 4.4 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Exhibit 4.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.5 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- 4.6 Amended and Restated Bottler Agreement, dated June 21, 2003, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (incorporated by reference to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 5, 2004 (File No. 1-12260)).
- 4.7 Supplemental Agreement, dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in the southeast of Mexico (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Registration Statement on Form F-1 filed on August 13, 1993 (File No. 333-67380)).
- 4.8 Amendments, dated May 17 and July 20, 1995, to Bottler Agreement and Letter of Agreement, dated August 22, 1994, each with respect to operations in Argentina between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 10.3 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.9 Bottler Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.4 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.10 Supplemental Agreement, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA (with English translation) (incorporated by reference to Exhibit 10.6 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.11 Amendment, dated February 1, 1996, to Bottler Agreement between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in SIRSA, dated December 1, 1995 (with English translation) (incorporated by reference to Exhibit 10.5 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 28, 1996 (File No. 1-12260)).
- 4.12 Amendment, dated May 22, 1998, to Bottler Agreement with respect to the former SIRSA territory, dated December 1, 1995, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to Exhibit 4.12 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- 4.13 Supply Agreement, dated June 21, 1993, between Coca-Cola FEMSA and FEMSA Empaques (incorporated by reference to FEMSA's registration statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 4.14 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Golfo, S.A. de C.V. and The Coca-Cola Company with respect to operations in Golfo, Mexico (English translation) (incorporated by reference to Exhibit 4.7 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).

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- 4.15 Bottler Agreement and Side Letter dated June 1, 2005, between Panamco Bajio, S.A. de C.V., and The Coca-Cola Company with respect to operations in Bajio, Mexico (English translation). (incorporated by reference to Exhibit 4.8 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on April 18, 2006 (File No. 1-12260)).
- 4.16 Coca-Cola Tradename License Agreement dated June 21, 1993, between Coca-Cola FEMSA and The Coca-Cola Company (with English translation) (incorporated by reference to FEMSA's Registration Statement on Form F-4 filed on April 9, 1998 (File No. 333-8618)).
- 4.17 Amendment to the Trademark License Agreement, dated December 1, 2002, entered by and among Administración de Marcas S.A. de C.V., as proprietor, and The Coca-Cola Export Corporation Mexico branch, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-2290)).
- 4.18 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Golfo S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.19 Trademark Sub-License Agreement, dated January 4, 2003, entered by and among Panamco Bajio S.A. de C.V., as licensor, and The Coca-Cola Company, as licensee (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.20 Supply Agreement dated April 3, 1998, between ALPLA Fábrica de Plásticos, S.A. de C.V. and Industria Embotelladora de México, S.A. de C.V. (with English translation) (incorporated by reference to Exhibit 4.18 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on July 1, 2002 (File No. 1-12260)).
- 4.21 Services Agreement, dated November 7, 2000, between Coca-Cola FEMSA and FEMSA Logística (with English translation) (incorporated by reference to Exhibit 4.15 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 20, 2001 (File No. 1-12260)).
- 4.22 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Bajio S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.23 Promotion and Non-Compete Agreement, dated March 11, 2003, entered by and among The Coca-Cola Export Corporation Mexico branch and Panamco Golfo S.A. de C.V. (with English translation) (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.24 Memorandum of Understanding, dated as of March 11, 2003, by and among Panamco, as seller, and The Coca-Cola Company, as buyer (incorporated by reference to Panamco's Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 1-12290)).
- 4.25 Bottler Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.1 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).

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- 4.26 Supplemental Agreement, dated August 22, 1994, between Coca-Cola FEMSA and The Coca-Cola Company with respect to operations in Argentina (with English translation) (incorporated by reference to Exhibit 10.2 to Coca-Cola FEMSA's Annual Report on Form 20-F filed on June 30, 1995 (File No. 1-12260)).
- 4.27 The Coca-Cola Company Memorandum to Steve Heyer from Jose Antonio Fernández, dated December 22, 2002 (incorporated by reference to Exhibit 10.1 to FEMSA's Registration Statement on Amendment No. 1 to the Form F-3 filed on September 20, 2004 (File No. 333-117795)).
- 8.1 Significant Subsidiaries.
- 12.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 27, 2012.
- 12.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 27, 2012.
- 13.1 Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 27, 2012.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 27, 2012

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

By: /s/ Javier Astaburuaga Sanjines

Name: Javier Astaburuaga Sanjines

Title: Executive Vice-President of Finance and Strategic Development / Chief Financial Officer

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MONTERREY, N.L., MÉXICO
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Fomento Económico Mexicano, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheets of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Heineken N. V. (a corporation in which the Company has a 12.53% and 9.24% interest as of December 31, 2011 and 2010, respectively) which is majority owned by Heineken Holdings N.V. (a corporation in which the Company has a 14.94% interest in both years) (collectively "Heineken"), prepared under International Financial Reporting Standards as adopted by the International Accounting Standards Board (IFRS), have been audited by other auditors whose report dated February 14, 2012 has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for Heineken, is based on the report of the other auditors. In the consolidated financial statements, the Company's investment in Heineken is stated at Ps. 75,075 and Ps. 66,478 million at December 31, 2011 and 2010 respectively and the Company's equity in the net income of Heineken is stated at Ps. 5,080 for the year ended December 31, 2011 and Ps. 3,319 million for the eight month period from April 30 to December 31, 2010.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation (including the Company's conversion of the financial statements of Heineken to Mexican Financial Reporting Standards as of December 31, 2011 and 2010 and for the year ended December 31, 2011 and the eight-month period ended December 31, 2010). We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations, and consolidated cash flows, for each of the three years in the period ended December 31, 2011, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from accounting principles generally accepted in the United States (See Notes 26 and 27 to the consolidated financial statements).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 27, 2012 expressed an unqualified opinion thereon.

Mancera, S.C.
A Member Practice of
Ernst & Young Global

C.P.C. Agustín Aguilar Laurents

Monterrey, N.L., México
April 27, 2012

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MÉXICO**

Consolidated Balance Sheets

At December 31, 2011 and 2010. Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	<u>Note</u>	<u>2011</u>		<u>2010</u>
ASSETS				
Current Assets:				
Cash and cash equivalents	4 B	\$ 1,887	Ps. 26,329	Ps. 27,097
Investments	4 B	95	1,329	66
Accounts receivable	6	753	10,499	7,702
Inventories	7	1,031	14,385	11,314
Recoverable taxes		309	4,311	4,243
Other current assets	8	152	2,114	1,038
Total current assets		<u>4,227</u>	<u>58,967</u>	<u>51,460</u>
Investments in shares	9	5,661	78,972	68,793
Property, plant and equipment	10	3,828	53,402	41,910
Intangible assets	11	5,133	71,608	52,340
Deferred tax asset	23 C	33	461	346
Other assets	12	809	11,294	8,729
TOTAL ASSETS		<u>19,691</u>	<u>274,704</u>	<u>223,578</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Bank loans and notes payable	17	46	638	1,578
Current portion of long-term debt	17	354	4,935	1,725
Interest payable		15	216	165
Suppliers		1,539	21,475	17,458
Accounts payable		413	5,761	5,375
Taxes payable		230	3,208	2,180
Other current liabilities	24 A	172	2,397	2,035
Total current liabilities		<u>2,769</u>	<u>38,630</u>	<u>30,516</u>
Long-Term Liabilities:				
Bank loans and notes payable	17	1,723	24,031	22,203
Employee benefits	15 B	162	2,258	1,883
Deferred tax liability	23 C	997	13,911	10,567
Contingencies and other liabilities	24 B	341	4,760	5,396
Total long-term liabilities		<u>3,223</u>	<u>44,960</u>	<u>40,049</u>
Total liabilities		<u>5,992</u>	<u>83,590</u>	<u>70,565</u>
Stockholders' Equity:				
Non-controlling interest in consolidated subsidiaries	20	4,124	57,534	35,665
Controlling interest:				
Capital stock		383	5,348	5,348
Additional paid-in capital		1,470	20,513	20,558
Retained earnings from prior years		6,219	86,756	51,045
Net income		1,085	15,133	40,251
Cumulative other comprehensive income	4 V	418	5,830	146
Controlling interest		<u>9,575</u>	<u>133,580</u>	<u>117,348</u>
Total stockholders' equity		<u>13,699</u>	<u>191,114</u>	<u>153,013</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>\$19,691</u>	<u>Ps. 274,704</u>	<u>Ps. 223,578</u>

The accompanying notes are an integral part of these consolidated balance sheets.

Monterrey, N.L., México.

José Antonio Fernández Carbajal
Chief Executive Officer

Javier Astaburuaga Sanjines
Chief Financial Officer

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MÉXICO**

Consolidated Income Statements

For the years ended December 31, 2011, 2010 and 2009. Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.), except for data per share.

	2011		2010	2009
Net sales	\$14,470	Ps. 201,867	Ps. 168,376	Ps. 158,503
Other operating revenues	84	1,177	1,326	1,748
Total revenues	14,554	203,044	169,702	160,251
Cost of sales	8,459	118,009	98,732	92,313
Gross profit	6,095	85,035	70,970	67,938
Operating expenses:				
Administrative	591	8,249	7,766	7,835
Selling	3,576	49,882	40,675	38,973
	4,167	58,131	48,441	46,808
Income from operations	1,928	26,904	22,529	21,130
Other expenses, net (Note 18)	(209)	(2,917)	(282)	(1,877)
Comprehensive financing result:				
Interest expense	(210)	(2,934)	(3,265)	(4,011)
Interest income	72	999	1,104	1,205
Foreign exchange gain (loss), net	84	1,165	(614)	(431)
Gain on monetary position, net	9	146	410	486
Market value (loss) gain on ineffective portion of derivative financial instruments	(11)	(159)	212	124
	(56)	(783)	(2,153)	(2,627)
Equity method of associates (Note 9)	370	5,167	3,538	132
Income before income taxes	2,033	28,371	23,632	16,758
Income taxes (Note 23 D)	550	7,687	5,671	4,959
Consolidated net income before discontinued operations	1,483	20,684	17,961	11,799
Income from the exchange of shares with Heineken, net of taxes (Note 5 B)	—	—	26,623	—
Net income from discontinued operations (Note 5 B)	—	—	706	3,283
Consolidated net income	\$ 1,483	Ps. 20,684	Ps. 45,290	Ps. 15,082
Net controlling interest income	1,085	15,133	40,251	9,908
Net non-controlling interest income	398	5,551	5,039	5,174
Consolidated net income	\$ 1,483	Ps. 20,684	Ps. 45,290	Ps. 15,082
Net controlling interest income before discontinued operations ⁽¹⁾ :				
Per series "B" share	\$ 0.05	Ps. 0.75	Ps. 0.64	Ps. 0.33
Per series "D" share	0.07	0.94	0.81	0.42
Net income from discontinued operations ⁽¹⁾ :				
Per series "B" share	—	—	1.37	0.16
Per series "D" share	—	—	1.70	0.20
Net controlling interest income ⁽¹⁾ :				
Per series "B" share	0.05	0.75	2.01	0.49
Per series "D" share	0.07	0.94	2.51	0.62

The accompanying notes are an integral part of these consolidated income statements.

(1) U.S. dollars and Mexican pesos, see Note 22 for number of shares.

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MÉXICO**

Consolidated Statements of Cash Flows

For the years ended December 31, 2011, 2010 and 2009.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	2011		2010	2009
Cash Flow Generated by (Used in) Operating Activities:				
Income before income taxes from continuing operations	\$ 2,033	Ps. 28,371	Ps. 23,632	Ps. 16,758
Non-cash operating expenses	37	513	386	664
Other adjustments regarding operating activities	113	1,583	545	773
Adjustments regarding investing activities:				
Depreciation	394	5,498	4,527	4,391
Amortization	75	1,043	975	798
(Gain) loss on sale of long-lived assets	(1)	(9)	215	177
Gain on sale of shares	—	(1)	(1,554)	(35)
Disposal of long-lived assets	50	703	9	129
Interest income	(72)	(999)	(1,104)	(1,205)
Equity method of associates	(370)	(5,167)	(3,538)	(132)
Adjustments regarding financing activities:				
Interest expenses	210	2,934	3,265	4,011
Foreign exchange (gain) loss, net	(84)	(1,165)	614	431
Gain on monetary position, net	(9)	(146)	(410)	(486)
Market value loss (gain) on ineffective portion of derivative financial instruments	11	159	(212)	(124)
	<u>2,387</u>	<u>33,317</u>	<u>27,350</u>	<u>26,150</u>
Accounts receivable and other current assets	(202)	(2,819)	(1,402)	(681)
Inventories	(160)	(2,227)	(1,369)	(698)
Suppliers and other accounts payable	107	1,492	823	2,373
Other liabilities	(40)	(566)	(249)	(267)
Employee benefits	(36)	(496)	(530)	(302)
Income taxes paid	(463)	(6,457)	(6,821)	(3,831)
Net cash flows provided by continuing operations	<u>1,593</u>	<u>22,244</u>	<u>17,802</u>	<u>22,744</u>
Net cash flows provided by discontinued operations	—	—	1,127	8,181
Net cash flows provided by operating activities	<u>1,593</u>	<u>22,244</u>	<u>18,929</u>	<u>30,925</u>
Cash Flow Generated by (Used in) Investing Activities:				
BRISA acquisition, net of cash acquired (see Note 5 A)	—	—	—	(717)
Payment of debt for the acquisition of Grupo Tampico, net of cash acquired (see Note 5 A)	(173)	(2,414)	—	—
Payment of debt for the acquisition of Grupo CIMSA , net of cash acquired (see Note 5 A)	(137)	(1,912)	—	—
Purchase of investments	(97)	(1,351)	(66)	(2,001)
Proceeds from investments	5	68	1,108	—
Recovery of long-term financing receivables with FEMSA Cerveza	—	—	12,209	—
Net effects of FEMSA Cerveza exchange	—	—	876	—
Other disposals	—	—	1,949	—
Interest received	71	991	1,104	1,205
Dividends received	119	1,661	1,304	—
Long-lived assets acquisitions	(760)	(10,615)	(9,590)	(7,315)
Long-lived assets sale	38	535	624	679
Other assets	(324)	(4,515)	(2,448)	(1,880)
Intangible assets	(38)	(538)	(892)	(1,347)
Net cash flows (used in) generated by investment activities by continuing operations	<u>(1,296)</u>	<u>(18,090)</u>	<u>6,178</u>	<u>(11,376)</u>
Net cash flows used in investment activities by discontinued operations	—	—	(4)	(3,389)
Net cash flows (used in) generated by investing activities	<u>(1,296)</u>	<u>(18,090)</u>	<u>6,174</u>	<u>(14,765)</u>
Net cash flows available for financing activities	<u>297</u>	<u>4,154</u>	<u>25,103</u>	<u>16,160</u>

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

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	2011	2010	2009
Cash Flow Generated by (Used in) Financing Activities:			
Bank loans obtained	474	6,606	9,016
Bank loans paid	(267)	(3,732)	(12,536)
Interest paid	(218)	(3,043)	(3,018)
Dividends declared and paid	(475)	(6,625)	(3,813)
Acquisition of non-controlling interest	(8)	(115)	(219)
Other liabilities	(1)	(13)	74
Net cash flows used in financing activities by continuing operations	(495)	(6,922)	(10,496)
Net cash flows used in financing activities by discontinued operations	—	—	(1,012)
Net cash flows used in financing activities	(495)	(6,922)	(11,508)
Net cash flows by continuing operations	(198)	(2,768)	13,484
Net cash flows by discontinued operations	—	—	111
Net cash flows	(198)	(2,768)	13,595
Translation and restatement effect on cash and cash equivalents	143	2,000	(1,006)
Initial cash	1,942	27,097	15,824
Initial cash of discontinued operations	—	—	(1,316)
Initial cash and cash equivalents	1,942	27,097	14,508
Ending balance	1,887	26,329	27,097
Ending balance by discontinued operations	—	—	(1,316)
Total ending balance of cash and cash equivalents, net	<u>\$ 1,887</u>	<u>Ps. 26,329</u>	<u>Ps. 27,097</u>

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

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**FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MÉXICO**

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2011, 2010 and 2009. Amounts expressed in millions of Mexican pesos (Ps.).

	Capital Stock	Additional Paid-in Capital	Retained Earnings from Prior Years	Net Income	Cumulative Other Comprehensive Income (Loss)	Controlling Interest	Non- Controlling Interest in Consolidated Subsidiaries	Total Stockholders' Equity
Balances at December 31, 2008	Ps. 5,348	Ps. 20,551	Ps. 38,929	Ps. 6,708	Ps. (2,715)	Ps. 68,821	Ps. 28,074	Ps. 96,895
Transfer of prior year net income			6,708	(6,708)		—	—	—
Change in accounting principles (see Note 2 K)			(182)			(182)	—	(182)
Dividends declared and paid (see Note 21)			(1,620)			(1,620)	(635)	(2,255)
Acquisition by FEMSA Cerveza of non-controlling interest		(3)				(3)	19	16
Comprehensive income				9,908	4,713	14,621	6,734	21,355
Balances at December 31, 2009	5,348	20,548	43,835	9,908	1,998	81,637	34,192	115,829
Transfer of prior year net income			9,908	(9,908)		—	—	—
Dividends declared and paid (see Note 21)			(2,600)			(2,600)	(1,213)	(3,813)
Other transactions of non-controlling interest		10				10	(283)	(273)
Recycling of OCI and decreasing of non-controlling interest due to exchange of FEMSA Cerveza (see Note 5 B)				525	(525)	—	(1,221)	(1,221)
Other movements of equity method of associates, net of taxes			(98)			(98)	—	(98)
Comprehensive income				39,726	(1,327)	38,399	4,190	42,589
Balances at December 31, 2010	5,348	20,558	51,045	40,251	146	117,348	35,665	153,013
Transfer of prior year net income			40,251	(40,251)		—	—	—
Dividends declared and paid (see Note 21)			(4,600)			(4,600)	(2,025)	(6,625)
Acquisition of Grupo Tampico through issuance of Coca-Cola FEMSA shares (see Note 5 A)						—	7,828	7,828
Acquisition of Grupo CIMSA through issuance of Coca-Cola FEMSA shares (see Note 5 A)						—	9,017	9,017
Other transactions of non-controlling interest		(45)				(45)	(70)	(115)
Other movements of equity method of associates, net of taxes			60			60	—	60
Comprehensive income				15,133	5,684	20,817	7,119	27,936
Balances at December 31, 2011	Ps. 5,348	Ps. 20,513	Ps. 86,756	Ps. 15,133	Ps. 5,830	Ps. 133,580	Ps. 57,534	Ps. 191,114

The accompanying notes are an integral part of these consolidated statements of changes in stockholders' equity.

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2011, 2010 and 2009. Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

Note 1. Activities of the Company

Fomento Económico Mexicano, S.A.B. de C.V. (“FEMSA”) is a Mexican holding company. The principal activities of FEMSA and its subsidiaries (the “Company”), as an economic unit, are carried out by operating subsidiaries and grouped under direct and indirect holding company subsidiaries (the “Subholding Companies”) of FEMSA.

On February 1, 2010, the Company and The Coca-Cola Company signed a second amendment to the shareholders’ agreement that confirms contractually the capability of the Company to govern the operating and financial policies of Coca-Cola FEMSA, to exercise control over the operations in the ordinary course of business and grants protective rights to The Coca-Cola Company on such items as mergers, acquisitions or sales of any line of business. These amendments were signed without transfer of any consideration. The percentage of voting interest of the Company in Coca-Cola FEMSA remains the same after the signing of this amendment.

On April 30, 2010, FEMSA exchanged 100% of its stake in FEMSA Cerveza, the beer business unit, for a 20% economic interest in Heineken Group (“Heineken”). This strategic transaction, as well as the related impacts, is broadly described in Note 5 B.

The following is a description of the activities of the Company as of the date of the issuance of these consolidated financial statements, together with the ownership interest in each Subholding Company:

<u>Subholding Company</u>	<u>% Ownership</u>	<u>Activities</u>
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries (“Coca-Cola FEMSA”)	50.0% ⁽¹⁾ ⁽²⁾ (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. The Coca-Cola Company indirectly owns 29.4% of Coca-Cola FEMSA’s capital stock. In addition, shares representing 20.6% of Coca-Cola FEMSA’s capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange “BMV”). Its American Depositary Shares (ADSs) trade on the New York Stock Exchange (NYSE).
FEMSA Comercio, S.A. de C.V. and subsidiaries (“FEMSA Comercio”)	100%	Operation of a chain of convenience stores in Mexico under the trade name “OXXO.”
CB Equity, LLP (“CB Equity”)	100%	This company holds Heineken N.V. and Heineken Holding N.V. shares, acquired as part of the exchange of FEMSA Cerveza on April 2010 (see Note 5 B).
Other companies	100%	Companies engaged in the production and distribution of coolers, commercial refrigeration equipment and plastic cases; as well as transportation logistics and maintenance services to FEMSA’s subsidiaries and to third parties.

(1) The Company controls operating and financial policies.

(2) The ownership decreased from 53.7% in 2010 to 50.0% as of December 31, 2011 as a result of merger transactions (see Note 5 A).

Note 2. Basis of Presentation

The accompanying consolidated financial statements were prepared in accordance with Normas de Información Financiera (Mexican Financial Reporting Standards or "Mexican FRS"), individually referred to as "NIFs," and are stated in millions of Mexican pesos ("Ps."). The translation of Mexican pesos into U.S. dollars ("\$") is included solely for the convenience of the reader, using the noon buying exchange rate published by the Federal Reserve Bank of New York of 13.9510 pesos per U.S. dollar as of December 30, 2011.

The consolidated financial statements include the financial statements of FEMSA and those companies in which it exercises control. All intercompany account balances and transactions have been eliminated in consolidation.

The Company classifies its costs and expenses by function in the consolidated income statement, in order to conform to the industry's practices where the Company operates. The income from operations line in the income statement is the result of subtracting cost of sales and operating expenses from total revenues, and it has been included for a better understanding of the Company's financial and economic performance.

Beginning on January 1, 2008, and according to NIF B-10 "Effects of Inflation," only inflationary economic environments have to recognize inflation effects. Since that date the Company has operated in a non inflationary economic environment in Mexico. As a result, the financial statements are no longer restated for inflation after December 31, 2007. Figures as of December 31, 2010, 2009 and 2008 are presented as they were reported in last year.

The consolidated balance sheet as of December 31, 2010 and the consolidated statement of cash flows for the years ended December 31, 2010 and 2009 present certain reclassifications for comparable purposes in accordance with several Mexican FRS which came into effect on January 1, 2011 (see Notes 2 C, D and E).

The results of operations of businesses acquired by the Company are included in the consolidated financial statements since the date of acquisition. As a result of certain acquisitions (see Note 5 A), the consolidated financial statements are not comparable to the figures presented in prior years.

The accompanying consolidated financial statements and their accompanying notes were approved for issuance by the Company's Chief Executive Officer and Chief Financial Officer on April 27, 2012 and subsequent events have been considered through that date (see Note 29).

On January 1, 2011, 2010, and 2009 several Mexican FRS came into effect. Such changes and their application are described as follows:

a) NIF B-5, "Financial Information by Segment":

In 2011, the Company adopted NIF B-5 "Financial Information by Segment", which superseded Bulletin B-5. NIF B-5 establishes that an operating segment shall meet the following criteria: i) the segment engages in business activities from which it earns or is in the process of obtaining revenues, and incurs in the related costs and expenses; ii) the operating results are reviewed regularly by the main authority of the entity's decision maker; and iii) specific financial information is available. NIF B-5 also requires disclosures related to operating segments subject to reporting, including details of earnings, assets and liabilities, reconciliations, information about products and services, and geographical areas. This pronouncement was applied retrospectively for comparative purposes and had no impact, except for new disclosure requirements such as: consolidated other expenses, consolidated other net finance expenses, consolidated net income before discontinued operations and investment in associates and joint ventures (see Note 25).

b) NIF B-9, "Interim Financial Reporting":

The Company adopted NIF B-9 "Interim Financial Reporting", which prescribes the content to be included in a complete or condensed set of financial statements for an interim period. In accordance with this standard, the complete set of financial statements shall include: a) a statement of financial position as of the end of the period, b) an income statement for the period, c) a statement of changes in equity for the period, d) a statement of cash flows for the period, and e) notes providing the relevant accounting policies and other explanatory notes. Condensed financial statements shall include: a) condensed statement of financial position, b) condensed income statement, c) condensed statement of changes in equity, d) condensed statement of cash flows, and e) selected explanatory notes. The adoption of NIF B-9 did not impact the Company's annual financial statements.

c) NIF C-4, “Inventories”:

On January 1, 2011 the Company adopted NIF C-4, which replaced Mexican accounting Bulletin C-4, Inventories. The principal difference between Mexican accounting Bulletin C-4 and Mexican FRS C-4 is that the new standard does not allow using direct costs as the inventory valuation method nor does it allow using the LIFO cost method as the formulas (formerly method) for the assignment of unit cost to the inventories. Mexican FRS C-4 establishes that inventories must be valued at the lower of either acquisition cost or net realizable value. Such standard also establishes that advances to suppliers for the acquisition of merchandise must be classified as inventories provided the risks and benefits are transferred to the Company. This standard also sets some additional disclosures. NIF C-4 was applied retrospectively causing a decrease in the inventory balances reported as of December 31, 2010 as a result of the treatment of presentation of advances to suppliers (see Note 2 D), and additional disclosures related to goods in transit and allowance for obsolescence, which was reclassified to finished products (see Note 7). The application of this standard did not impact on inventory valuation of the Company.

d) NIF C-5, “Prepaid Expenses”:

In 2011, the Company adopted NIF C-5, which superseded Mexican accounting Bulletin C-5. This standard establishes that the main characteristic of prepaid expenses is that they do not result in the transfer to the entity of the benefits and risks inherent to the goods or services to be received. Consequently, prepaid expenses must be recognized in the balance sheet as either current or non-current assets, depending on the item classification in the statement of financial position. Moreover, Mexican FRS C-5 establishes that prepayments made for goods or services whose inherent benefits and risks have already been transferred to the entity must be carried to the appropriate caption. The accounting changes resulting from the adoption of this standard were recognized retrospectively, causing an increase in “other current assets” Ps. 133 (see Note 8) and “other assets” Ps. 226 (see Note 12), as a result of the comparative presentation of prepaid expenses, which were reclassified from “inventories” (Ps. 133) and “property, plant, and equipment” (Ps. 226), as of December 31, 2010.

e) NIF C-6, “Property, Plant and Equipment”:

In 2011, the Company adopted NIF C-6, which replaced Mexican accounting Bulletin C-6, Property, Machinery and Equipment, and it is effective beginning on January 1, 2011, with the exception for the changes related to the segregation of property, plant and equipment into separate components of those assets with different useful lives that is effective on January 1, 2012. However, the depreciation by separate items (major components), has been applied by the Company since prior years, and consequently did not impact its financial statements. Among other points, NIF C-6 establishes that for acquisitions of free-of charge assets, the cost of the assets must be null, thus eliminating the option of performing appraisals. In the case of asset exchanges, NIF C-6 requires entities to determine the commercial substance of the transaction. The depreciation of all assets must be applied against the components of the assets, and the amount to be depreciated is the cost of acquisition less the asset’s residual value. In addition, NIF C-6 clarifies that regardless of whether the use or non use of the asset is temporary or indefinite, it should not cease the depreciation charge. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. There are specific disclosures for public entities such as: additions, disposals, depreciation, impairments, among others. This standard was fully applied and did not impact the Company’s financial statements, except for reclassification from the balance of the property, plant and equipment as of December 31, 2010 as a result of the treatment of presentation of advances to suppliers (see Note 2 D) and additional disclosures (see Note 10).

f) NIF C-18, “Obligations Related to Retirement of Property, Plant and Equipment”:

In 2011, the Company adopted NIF C-18, which establishes the accounting treatment for the recognition of a liability for legal or constructive obligations related to the retirement of property, plant and equipment recognized as a result of the acquisition, construction, development and/or normal operation of such components. This standard also establishes that an entity must initially recognize a provision for obligations related to retirement of property, plant and equipment based on its best estimate of the disbursements required to settle the present obligation at the time it is assumed, provided a reliable estimate can be made of the amount of the obligation. The best estimate of a provision for an obligation associated with the retirement of property, plant and equipment components should be determined using the expected present value method. The adoption of NIF C-18 did not impact the Company’s financial statements.

g) NIF C-1, “Cash and Cash Equivalents”:

In 2010, the Company adopted NIF C-1 “Cash and Cash Equivalents,” which superseded Bulletin C-1 “Cash.” NIF C-1 establishes that cash shall be measured at nominal value, and cash equivalents shall be measured at acquisition cost for initial recognition. Subsequently, cash equivalents should be measured according to its designation: precious metals shall be measured at fair value, foreign currencies shall be translated to the reporting currency applying the closing exchange rate, other cash equivalents denominated in a different measure of exchange shall be recognized to the extent provided for this purpose at the closing date of financial statements, and temporary investments shall be presented at fair value. Cash

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and cash equivalents will be presented in the first line of assets, including restricted cash. This pronouncement was applied retrospectively, causing an increase in the cash balances reported as a result of the treatment of presentation of restricted cash, which was reclassified from “other current assets” for the amount of Ps. 394 at December 31, 2010 (see Note 4 B).

h) Interpretation to Mexican Financial Reporting Standards (“Interpretación a las Normas de Información Financiera”) or “INIF 19”, “Accounting Change as a Result of IFRS Adoption”:

On September 30, 2010, INIF 19 “Accounting change as a result of IFRS adoption” was issued. INIF 19 states disclosure requirements for: (a) financial statements based on Mexican FRS that were issued before IFRS adoption and (b) financial statements on Mexican FRS that are issued during IFRS adoption process. The adoption of this INIF, resulted in additional disclosures regarding IFRS adoption, such as date of adoption, significant financial impact, significant changes in accounting policies, and others (see Note 28).

i) NIF B-7, “Business Combinations”:

In 2009, the Company adopted NIF B-7 “Business Combinations,” which is an amendment to the previous Bulletin B-7 “Business Acquisitions.” NIF B-7 establishes general rules for recognizing the fair value of net assets of businesses acquired as well as the fair value of non-controlling interests, at the purchase date. This statement differs from the previous Bulletin B-7 in the following: a) To recognize all assets and liabilities acquired at their fair value, including the non-controlling interest based on the acquirer accounting policies, b) acquisition-related costs and restructuring expenses should not be part of the purchase price, and c) changes to tax amounts recorded in acquisitions must be recognized as part of the income tax provision. This pronouncement was applied prospectively to business combinations for which the acquisition date was on or after January 1, 2009.

j) NIF C-7, “Investments in Associates and Other Permanent Investments”:

NIF C-7 “Investments in Associates and Other Permanent Investments,” establishes general rules of accounting recognition for the investments in associated and other permanent investments not jointly or fully controlled or that are significantly influenced by an entity. This pronouncement includes guidance to determine the existence of significant influence. Previous Bulletin B-8 “Consolidated and Combined Financial Statements and Assessment of Permanent Share Investments,” defined that permanent share investments were accounted for by the equity method if the entity held 10% or more of its outstanding shares. NIF C-7 establishes that permanent share investments should be accounted for by equity method if: a) an entity holds 10% or more of a public entity, b) an entity holds 25% or more of a non-public company, or c) an entity has significant influence in its investment as defined in NIF C-7. The Company adopted NIF C-7 on January 1, 2009, and its adoption did not have a significant impact in its consolidated financial results.

k) NIF C-8, “Intangible Assets”:

In 2009, the Company adopted NIF C-8 “Intangible Assets” which is similar to previous Bulletin C-8 “Intangible Assets.” NIF C-8, establishes the rules of valuation, presentation and disclosures for the initial and subsequent recognition of intangible assets that are acquired either individually, through acquisition of an entity, or generated internally in the course of the entity’s operations. This NIF considers intangible assets as non-monetary items, broadens the criteria of identification to include not only if they are separable (asset could be sold, transferred or used by the entity) but also whether they come from contractual or legal rights. NIF C-8 establishes that preoperative costs capitalized before this standard went into effect should have intangible assets characteristics, otherwise preoperative costs must be expensed as incurred. The impact of adopting NIF C-8 was a Ps. 182, net of deferred income tax, regarding prior years preoperative costs that did not have intangible asset characteristics, charged to January 1, 2009 retained earnings in the consolidated financial statements and is presented as a change in accounting principle in the consolidated statements of changes in stockholders’ equity.

l) NIF D-8, “Share-Based Payments”:

In 2009, the Company adopted NIF D-8 “Share-Based Payments” which establishes the recognition of share-based payments. When an entity purchases goods or pays for services with equity instruments, the NIF requires the entity to recognize those goods and services at fair value and the corresponding increase in equity. If the entity cannot determine the fair value of goods and services, it should determine if using an indirect method, based on fair value of the equity instruments. This pronouncement substitutes for the supplementary use of IFRS 2 “Share-Based Payments.” The adoption of NIF D-8 did not impact the Company’s financial statements.

m) NIF B-8, “Consolidated and Combined Financial Statements”:

NIF B-8 “Consolidated and Combined Financial Statements,” issued in 2008 amends Bulletin B-8 “Consolidated and Combined Financial Statements and Assessment of Permanent Share Investments.” Prior Bulletin B-8 based its

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consolidation principle mainly on ownership of the majority voting capital stock. NIF B-8 differs from previous Bulletin B-8 in the following: a) defines control as the power to govern financial and operating policies, b) establishes that there are other facts, such as contractual agreements that have to be considered to determine if an entity exercises control or not, c) defines “Specific-Purpose Entity” (“SPE”), as those entities that are created to achieve a specific purpose and are considered within the scope of this pronouncement, d) establishes new terms as “controlling interest” instead of “majority interest” and “non-controlling interest” instead of “minority interest,” and e) confirms that non-controlling interest must be assessed at fair value at the subsidiary acquisition date. NIF B-8 was applied prospectively, beginning on January 1, 2009. The amendment to the shareholders agreement described in Note 1, allowed the Company to continue to consolidate Coca-Cola FEMSA for Mexican FRS purposes during 2009.

Adoption of IFRS

The *Comisión Nacional Bancaria y de Valores* (Mexican National Banking and Securities Commission, or CNBV) announced that from 2012, all public companies listed in Mexico must report their financial information in accordance with International Financial Reporting Standards (“IFRS”). Since 2006, the CINIF (Mexican Board of Research and Development of Financial Reporting Standards) has been modifying Mexican Financial Reporting Standards in order to ensure their convergence with IFRS.

The Company will adopt IFRS beginning in January 1, 2012 with a transition date to IFRS of January 1, 2011. The consolidated financial statements of the Company for 2012 will be presented in accordance with IFRS as issued by the International Accounting Standards Board (IASB). The SEC has previously changed its rules to allow foreign private issuers that report under IFRS as issued by the IASB to not reconcile their financial statements to Generally Accepted Accounting Principles in the United States of America (U.S. GAAP), (see Note 28).

Note 3. Foreign Subsidiary Incorporation

The accounting records of foreign subsidiaries are maintained in local currency and in accordance with local accounting principles of each country. For incorporation into the Company’s consolidated financial statements, each foreign subsidiary’s individual financial statements are adjusted to Mexican FRS, and translated into Mexican pesos, as described as follows:

- For inflationary economic environments, the inflation effects of the origin country are recognized, and subsequently translated into Mexican pesos using the year-end exchange rate for the balance sheets and income statements; and
- For non-inflationary economic environments, assets and liabilities are translated into Mexican pesos using the year-end exchange rate, stockholders’ equity is translated into Mexican pesos using the historical exchange rate, and the income statement is translated using the average exchange rate of each month.

Country or Zone	Functional / Recording Currency	Local Currencies to Mexican Pesos					
		Average Exchange Rate for			Exchange Rate as of December 31		
		2011	2010	2009	2011	2010	2009
Mexico	Mexican peso	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00
Guatemala	Quetzal	1.60	1.57	1.66	1.79	1.54	1.56
Costa Rica	Colon	0.02	0.02	0.02	0.03	0.02	0.02
Panama	U.S. dollar	12.43	12.64	13.52	13.98	12.36	13.06
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.55	0.59	0.67	0.61	0.56	0.63
Argentina	Argentine peso	3.01	3.23	3.63	3.25	3.11	3.44
Venezuela ⁽¹⁾	Bolivar	2.89	2.97	6.29	3.25	2.87	6.07
Brazil	Reai	7.42	7.18	6.83	7.45	7.42	7.50
Euro Zone	Euro	17.28	16.74	18.80	18.05	16.41	18.81

(1) Equals 4.30 bolivars per one U.S. dollar in 2011 and 2010; and 2.15 bolivars per one U.S. dollar for 2009, translated to Mexican pesos applying the year-end exchange rate.

The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation are included in the cumulative translation adjustment, which is recorded in stockholders’ equity as part of cumulative other comprehensive income (loss).

Beginning in 2010, the government of Venezuela announced the devaluation of the Bolivar (Bs). The official exchange rate of Bs. 2.150 to the dollar, in effect since 2005, was replaced on January 8, 2010, with a dual-rate regime, which allows two official exchange rates, one for essential products of Bs. 2.60 per U.S. dollar and other non-essential products of Bs. 4.30 per

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U.S. dollar. According to this, the exchange rate used by the company to convert the information of the operation for this country changed from Bs 2.15 to 4.30 per U.S. dollar in 2010. As a result of this devaluation, the balance sheet of the Coca-Cola FEMSA Venezuelan subsidiary reflected a reduction in other comprehensive income (part of shareholder's equity) of Ps. 3,700 which was accounted for at the time of the devaluation in January 2010. The Company has operated under exchange controls in Venezuela since 2003 that affect its ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price to us of raw materials purchased in local currency.

During December 2010, authorities of the Venezuelan Government announced the unification of their two fixed U.S. dollar exchange rates to Bs. 4.30 per U.S. dollar, effective January 1, 2011. As a result of this change, the translation of balance sheet of the Coca-Cola FEMSA's Venezuelan subsidiary did not have an impact in shareholders' equity, since transactions performed by this subsidiary were already using the Bs. 4.30 exchange rate.

Intercompany financing balances with foreign subsidiaries are considered as long-term investments, since there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing are recorded in equity as part of cumulative translation adjustment, in cumulative other comprehensive income (loss).

The translation of assets and liabilities denominated in foreign currencies into Mexican pesos is for consolidation purposes and does not indicate that the Company could realize or settle the reported value of those assets and liabilities in Mexican pesos. Additionally, this does not indicate that the Company could return or distribute the reported Mexican peso value equity to its shareholders.

Note 4. Significant Accounting Policies

The Company's accounting policies are in accordance with Mexican FRS, which require that the Company's management make certain estimates and use certain assumptions to determine the valuation of various items included in the consolidated financial statements. The Company's management believes that the estimates and assumptions used were appropriate as of the date of these consolidated financial statements. However actual results are subject to future events and uncertainties, which could materially impact the Company's actual performance.

The significant accounting policies are as follows:

a) Recognition of the Effects of Inflation in Countries with Inflationary Economic Environment:

NIF B-10 establishes two types of inflationary environments: a) inflationary economic environment; this is when cumulative inflation of the three preceding years is 26% or more. In such case, inflation effects are recognized in the financial statements by applying the integral method and the recognized restatement effects for inflationary economic environments is made starting in the period that the entity becomes inflationary; and b) non-inflationary economic environment; this is when cumulative inflation of the three preceding years is less than 26%. In such case, no inflationary effects are recognized in the financial statements, keeping the recognized restatement effects from the last period in which the inflationary accounting was applied.

The Company recognizes the effects of inflation in the financial information of its subsidiaries that operate in inflationary economic environments through the integral method, which consists of:

- Using inflation factors to restate non-monetary assets such as inventories, investments in process, property, plant and equipment, intangible assets, including related costs and expenses when such assets are consumed or depreciated. The imported assets are recorded using the exchange rate of the acquisition date, and are restated using the inflation factors of the country where the asset is acquired for inflationary economic environments;
- Applying the appropriate inflation factors to restate capital stock, additional paid-in capital, retained earnings and the cumulative other comprehensive income/loss by the necessary amount to maintain the purchasing power equivalent in Mexican pesos on the dates such capital was contributed or income was generated up to the date these consolidated financial statements are presented; and
- Including in the Comprehensive Financing Result the gain or loss on monetary position (see Note 4 T).

The Company restates the financial information of its subsidiaries that operate in inflationary economic environments using the consumer price index of each country.

The operations of the Company are classified as follows considering the cumulative inflation of the three preceding years of 2011. The following classification was also applied for the 2010 period:

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	Inflation Rate		Cumulative Inflation		Type of Economy
	2011	2010	2009	2010-2008	
Mexico	3.8%	4.4%	3.6%	15.2%	Non-Inflationary
Guatemala	6.2%	5.4%	(0.3)%	15.0%	Non-Inflationary
Colombia	3.7%	3.2%	2.0%	13.3%	Non-Inflationary
Brazil	6.5%	5.9%	4.1%	17.4%	Non-Inflationary
Panama	6.3%	4.9%	1.9%	14.1%	Non-Inflationary
Euro Zone	2.7%	2.2%	0.9%	4.3%	Non-Inflationary
Argentina	9.5%	10.9%	7.7%	28.1%	Inflationary
Venezuela	27.6%	27.2%	25.1%	108.2%	Inflationary
Nicaragua ⁽¹⁾	7.6%	9.2%	0.9%	25.4%	Inflationary
Costa Rica ⁽¹⁾	4.7%	5.8%	4.0%	25.4%	Inflationary

(1) Costa Rica and Nicaragua have been considered inflationary economies in 2009, 2010 and 2011. While the cumulative inflation for 2008-2010 was less than 26%, inflationary trends in these countries continue to support this classification.

b) Cash and Cash Equivalents and Investments:

Cash and Cash Equivalents:

Cash is measured at nominal value and consists of non-interest bearing bank deposits and restricted cash. Cash equivalents consisting principally of short-term bank deposits and fixed-rate investments with original maturities of three months or less are recorded at its acquisition cost plus accrued interest income not yet received, which is similar to listed market prices.

	2011	2010
Mexican pesos	Ps. 7,642	Ps. 11,207
U.S. dollars	13,752	12,652
Brazilian reais	1,745	1,792
Euros	785	531
Venezuelan bolivars	1,668	460
Colombian pesos	471	213
Argentine pesos	131	153
Others	135	89
	Ps. 26,329	Ps. 27,097

As of December 31, 2011 and 2010, the Company has restricted cash which is pledged as collateral of accounts payable in different currencies as follows:

	2011	2010
Venezuelan bolivars	Ps. 324	Ps. 143
Argentine pesos	—	2
Brazilian reais	164	249
	Ps. 488	Ps. 394

As of December 31, 2011 and 2010, cash equivalents amounted to Ps. 17,908 and Ps. 19,770, respectively.

Investments:

Investments consist of debt securities and bank deposits with maturities more than three months. Management determines the appropriate classification of investments of the time of purchase and reevaluates such designation as of each balance date. As of December 31, 2011 and 2010 investments are classified as available-for-sale and held-to maturity.

Available-for-sale investments are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Interest and dividends on investments classified as available-for-sale are included in interest income. The fair values of the investments are readily available based on quoted market prices.

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Held-to maturity investments are those that the Company has the positive intent and ability to hold to maturity, and are carried at acquisition cost which includes any cost of purchase and premium or discount related to the investment which is amortized over the life of the investment based on its outstanding balance. Interest and dividends on investments classified as held-to maturity are included in interest income. The carrying value of Held-to maturity investments is similar to its fair value. The following is a detail of available-for-sale and held-to maturity investments.

<i>Available-for-Sale</i>	<u>2011</u>	<u>2010</u>
<u>Debt Securities</u>		
Acquisition cost	Ps. 326	Ps. 66
Unrealized gross gain	4	—
Fair value	<u>Ps. 330</u>	<u>Ps. 66</u>
<i>Held-to Maturity ⁽¹⁾</i>		
<u>Bank Deposits</u>		
Acquisition cost	Ps. 993	Ps.—
Accrued interest	6	—
Amortized cost	<u>Ps. 999</u>	<u>Ps.—</u>
Total investments	<u>Ps. 1,329</u>	<u>Ps. 66</u>

(1) Investments contracted in euros at a fixed interest rate and maturing on April 2, 2012.

c) **Accounts Receivable:**

Accounts receivable representing exigible rights arising from sales, services and loans to employees or any other similar concept, are measured at their realizable value and are presented net of discounts and allowance for doubtful accounts.

Allowance for doubtful accounts is based on an evaluation of the aging of the receivable portfolio and the economic situation of the Company's clients, as well as the Company's historical loss rate on receivables and the economic environment in which the Company operates. The carrying value of accounts receivable approximates its fair value as of both December 31, 2011 and 2010.

Coca-Cola FEMSA has accounts receivable from The Coca-Cola Company arising from the latter's participation in advertising and promotional programs and investment in refrigeration equipment and returnable bottles made by Coca-Cola FEMSA (see Note 4 L).

d) **Inventories and Cost of Sales:**

Inventories are measured at the lower of cost or net realizable value.

The cost of inventories is based on the weighted average cost formula and the operating segments of the Company use inventory costing methodologies to value their inventories, such as the standard cost method in Coca-Cola FEMSA and retail method in FEMSA Comercio.

Cost of sales based on average cost is determined based on the average amount of the inventories at the time of sale. Cost of sales includes expenses related to raw materials used in the production process, labor cost (wages and other benefits), depreciation of production facilities, equipment and other costs such as fuel, electricity, breakage of returnable bottles in the production process, equipment maintenance, inspection and plant transfer costs.

e) **Other Current Assets:**

Other current assets are comprised of payments for goods and services whose inherent risks and benefits have not been transferred to the Company and that will be received over the next 12 months, the fair market value of derivative financial instruments with maturity dates of less than one year (see Note 4 U), and long-lived assets available for sale that will be sold within the following year.

Prepaid expenses principally consist of advances to suppliers of raw materials, advertising, promotional, leasing and insurance expenses, and are recognized in the appropriate balance sheet or income statement caption when the risks and benefits have already been transferred to the Company and/or goods, services or benefits are received.

Advertising costs consist of television and radio advertising airtime paid in advance, and is generally amortized over a 12-month period based on the transmission of the television and radio spots. The related production costs are recognized in income from operations the first time the advertising is broadcasted.

Promotional expenses are recognized as incurred, except for those promotional costs related to the launching of new products or presentations before they are on the market. These costs are recorded as prepaid expenses and amortized over the period during which they are estimated to increase sales of the related products or container presentations to normal operating levels, which is generally no longer than one year.

The long-lived assets available-for-sale are recorded at the lower of cost or net realizable value. Long-lived assets are subject to impairment tests (see Note 8).

f) Capitalization of Comprehensive Financing Result:

Comprehensive financing result directly attributable to qualifying assets has to be capitalized as part of acquisition cost, except for interest income obtained from temporary investments while the entity is waiting to invest in the qualifying asset. Comprehensive financing result of long-term financing clearly linked to qualifying assets is capitalized directly. When comprehensive financing result of direct or indirect financing is not clearly linked to qualifying assets, the Company capitalizes the proportional comprehensive financing result attributable to those qualifying assets by the weighted average interest rate of each business, including the effects of derivative financial instruments related to that financing.

g) Investments in Shares:

Investments in shares of associated companies where the Company holds 10% or more of a public company, 25% or more of a non-public company, or exercises significant influence according to NIF C-7 (see Note 2 J), are initially recorded at their acquisition cost as of acquisition date and are subsequently accounted for by the equity method. In order to apply the equity method from associates, the Company uses the investee's financial statements for the same period as the Company's consolidated financial statements and converts them to Mexican FRS if the investee reports financial information in a different GAAP. Equity method income from associates is presented in the consolidated income statements as part of the income from continuing operations.

Goodwill identified at the investment's acquisition date is presented as part of the investment of shares of an associate in the consolidated balance sheet.

On May 1, 2010, the Company started to account for its 20% interest in Heineken Group under the equity method (see Notes 5 B and 9). Heineken is an international company which prepares its information based on International Financial Reporting Standards (IFRS). The Company has analyzed differences between Mexican FRS and IFRS to reconcile Heineken's net controlling interest income and comprehensive income as required by NIF C-7, in order to estimate the impact on its figures.

Investments in affiliated companies in which the Company does not have significant influence are recorded at acquisition cost and restated using the consumer price index if that entity operates in an inflationary economic environment.

h) Property, Plant and Equipment:

Property, plant and equipment are initially recorded at their cost of acquisition and/or construction. The comprehensive financing result related to the acquisition or construction of qualifying asset is capitalized as part of the cost of that asset. Major maintenance costs are capitalized as part of total acquisition cost. Routine maintenance and repair costs are expensed as incurred. Property, plant and equipment also may include costs of dismantling and removing the items and restoring the site on which they are located. In 2011 Returnable bottles are also part of property, plant and equipment and 2010 has been also aggregated to conform this presentation.

Investments in fixed assets in progress consist of property, plant and equipment not yet in service, in other words, that are not yet used for the purpose that they were bought, built or developed. The Company expects to complete those investments during the following 12 months.

Depreciation is computed using the straight-line method over acquisition cost, reduced by their residual values. Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted and depreciated for as separate items (major components) of property, plant and equipment. The Company estimates depreciation rates, considering the estimated useful lives of the assets, which along with residual value is reviewed, and modified if appropriate, at each financial year-end.

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The estimated useful lives of the Company's principal assets are as follows:

	<u>Years</u>
Buildings	40–50
Machinery	12–20
Distribution equipment	10–12
Refrigeration equipment	5–7
Returnable bottles	1.5–4
Information technology equipment	3–5

Returnable and Non-Returnable Bottles:

The Company has two types of bottles: returnable and non-returnable.

- Non returnable: Are recorded in the results of operations at the time of product sale.
- Returnable: Are classified as long-lived assets as a component of property, plant and equipment.

Returnable bottles are recorded at acquisition cost, and for countries with inflationary economy they are restated by applying inflation factors as of the balance sheet date, according to NIF B-10.

There are two types of returnable bottles:

- Those that are in the Company's control within its facilities, plants and distribution centers; and
- Those that have been placed in the hands of customers, but still belong to the Company.

Depreciation of returnable bottles is computed using the straight-line method over acquisition cost. The Company estimates depreciation rates considering their estimated useful lives.

Returnable bottles that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which the Company retains ownership. These bottles are monitored by sales personnel during periodic visits to retailers and the Company has the right to charge any breakage identified to the retailer. Bottles that are not subject to such agreements are expensed when placed in the hands of retailers.

The Company's returnable bottles in the market and for which a deposit from customers has been received are presented net of such deposits, and the difference between the cost of these assets and the deposits received is depreciated according to their useful lives.

Leasing Contracts:

The Company leases assets such as property, land, and transportation, machinery and computer equipments.

Leases are capitalized if: i) the contract transfers ownership of the leased asset to the lessee at the end of the lease, ii) the contract contains an option to purchase the asset at a bargain purchase price, iii) the lease period is substantially equal to the remaining useful life of the leased asset or iv) the present value of future minimum payments at the inception of the lease is substantially equal to the market value of the leased asset, net of any residual value.

When the inherent risks and benefits of a leased asset remains substantially with the lessor, leases are classified as operating and rent is charged to results of operations as incurred.

i) Other Assets:

Other assets represent payments whose benefits will be received in future years and mainly consist of the following:

- Agreements with customers for the right to sell and promote the Company's products during certain periods of time, which are considered monetary assets and amortized under the straight-line method over the life of the contract.

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The amortization is recorded reducing net sales, which during years ended December 31, 2011, 2010 and 2009, amounted to Ps. 803, Ps. 553 and Ps. 604, respectively.

- Leasehold improvements are amortized using the straight-line method, over the shorter of the useful life of the assets and the period of the lease. The amortization of leasehold improvements as of December 31, 2011, 2010 and 2009 were Ps. 590, Ps. 518 and Ps. 471, respectively.

j) Intangible Assets:

Intangible assets represent payments whose benefits will be received in future years. These assets are classified as either intangible assets with a finite useful life or intangible assets with an indefinite useful life, in accordance with the period over which the Company is expected to receive the benefits.

Intangible assets with finite useful lives are amortized and mainly consist of:

- Information technology and management systems costs incurred during the development stage which are currently in use. Such amounts were capitalized and then amortized using the straight-line method over the useful life of those assets. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.
- Other computer systems cost in the development stage, not yet in use. Such amounts are capitalized as they are expected to add value such as income or cost savings in the future. Such amounts will be amortized on a straight-line basis over their estimated useful life after they are placed in service.
- Long-term alcohol licenses are amortized using the straight-line method, and are presented as part of intangible assets of finite useful life.

Intangible assets with indefinite lives are not amortized and are subject to annual impairment tests or more frequently if necessary. These assets are recorded in the functional currency of the subsidiary in which the investment was made and are subsequently translated into Mexican pesos applying the closing rate of each period. Where inflationary accounting is applied, the intangible assets are restated applying inflation factors of the country of origin and then translated into Mexican pesos at the year-end exchange rate. The Company's intangible assets with indefinite lives mainly consist of rights to produce and distribute Coca-Cola trademark products in the territories acquired. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers.

There are seven bottler agreements for Coca-Cola FEMSA's territories in Mexico; two expire in June 2013, two expire in May 2015 and additionally three contracts that arose from the merger with Grupo Tampico and CIMSA, expire in September 2014, April and July 2016. The bottler agreement for Argentina expires in September 2014, for Brazil expires in April 2014, in Colombia in June 2014, in Venezuela in August 2016, in Guatemala in March 2015, in Costa Rica in September 2017, in Nicaragua in May 2016 and in Panama in November 2014. All of the Company's bottler agreements are automatically renewable for ten-year terms, subject to the right of each party to decide not to renew any of these agreements. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent Coca-Cola FEMSA from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on its business, financial conditions, results from operations and prospects.

Goodwill represents the excess of the acquisition cost over the fair value in identifiable net assets on the acquisition date. It equates to synergies both existing in the acquired operations and those further expected to be realized upon integration. Goodwill is recognized separately and is carried at cost, less accumulated impairment losses.

k) Impairment of Investments in Shares, Long-Lived Assets and Goodwill:

The Company reviews the carrying value of its long-lived assets and goodwill for impairment and determines whether impairment exists, by comparing the book value of the assets with its fair value which is calculated using recognized methodologies. In case of impairment, the Company records the resulting fair value.

For depreciable and amortizable long-lived assets, such as property, plant and equipment and certain other definite long-lived assets, the Company performs tests for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through their expected future cash flows.

For indefinite life intangible assets, such as distribution rights and trademarks, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of those intangible assets exceeds its implied fair value calculated using recognized methodologies consistent with them.

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For goodwill, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of the reporting unit might exceed its implied fair value.

For investments in shares, including its goodwill, the Company performs impairment tests whenever certain events or changes in circumstances indicate that the carrying amount may exceed fair value. When the events or circumstances are considered by the Company as an evidence of impairment that is other than temporary, a loss in value is recognized. Impairment charges regarding long-lived assets and goodwill are recognized in other expenses and charges regarding investments in shares are recognized as a decrease in the equity income method of the period.

Impairments regarding amortizable and indefinite life intangible assets are presented in Note 11. No impairment was recognized regarding to depreciable long-lived assets, goodwill nor investments in shares.

l) Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. The contributions received for advertising and promotional incentives are included as a reduction of selling expenses. The contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction of the investment in refrigeration equipment and returnable bottles. Total contributions received were Ps. 2,561, Ps. 2,386 and Ps. 1,945 during the years ended December 31, 2011, 2010 and 2009, respectively.

m) Employee Benefits:

Employee benefits include obligations for pension and retirement plans, seniority premiums, postretirement medical services and severance indemnity liabilities other than restructuring, all based on actuarial calculations, using the projected unit credit method. Costs related to compensated absences, such as vacations and vacation premiums, are recognized on an accrual basis.

Employee benefits are considered to be non-monetary and are determined using long-term assumptions. The yearly cost of employee benefits is charged to income from operations and labor cost of past services is recorded as expenses over the remaining working life period of the employees.

Certain subsidiaries of the Company have established funds for the payment of pension benefits, seniority premiums and postretirement medical services through irrevocable trusts of which the employees are named as beneficiaries.

n) Contingencies:

The Company recognizes a liability for a loss when it is probable that certain effects related to past events, would materialize and could be reasonably estimated. These events and its financial impact are disclosed as loss contingencies in the consolidated financial statements and include penalties, interests and any other charge related to contingencies. The Company does not recognize an asset for a gain contingency unless it is certain that will be collected.

o) Commitments:

The Company discloses all its commitments regarding material long-lived assets acquisitions, and all contractual obligations (see Note 24 F).

p) Revenue Recognition:

Revenue is recognized in accordance with stated shipping terms, as follows:

- For Coca-Cola FEMSA sales of products are recognized as revenue upon delivery to the customer and once the customer has taken ownership of the goods. Net sales reflect units delivered at list prices reduced by promotional allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the products of Coca-Cola FEMSA; and
- For FEMSA Comercio retail sales, net revenues are recognized when the product is delivered to customers, and customers take possession of products.

During 2007 and 2008, Coca-Cola FEMSA sold certain of its private label brands to The Coca-Cola Company. Proceeds received from The Coca-Cola Company were initially deferred and are being amortized against the related costs of future product sales over the estimated period of such sales. The balance of unearned revenues as of December 31, 2011 and 2010 amounted to Ps. 302 and Ps. 547, respectively. The short-term portions of such amounts which are presented as other current liabilities, amounted Ps. 197 and Ps. 276 at December 31, 2011 and 2010, respectively.

q) Operating Expenses:

Operating expenses are comprised of administrative and selling expenses. Administrative expenses include labor costs (salaries and other benefits) of employees not directly involved in the sale of the Company's products, as well as professional service fees, depreciation of office facilities and amortization of capitalized information technology system implementation costs.

Selling expenses include:

- Distribution: labor costs (salaries and other benefits); outbound freight costs, warehousing costs of finished products, breakage of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2011, 2010 and 2009, these distribution costs amounted to Ps. 15,125, Ps. 12,774 and Ps. 13,395, respectively;
- Sales: labor costs (salaries and other benefits) and sales commissions paid to sales personnel; and
- Marketing: labor costs (salaries and other benefits), promotional expenses and advertising costs.

r) Other Expenses:

Other expenses include Employee Profit Sharing ("PTU"), gains or losses on disposals of long-lived assets, impairment of long-lived assets, contingencies reserves as well as their subsequent interest and penalties, severance payments derived from restructuring programs and all other non-recurring expenses related to activities different from the main activities of the Company that are not recognized as part of the comprehensive financing result.

PTU is applicable to Mexico and Venezuela. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income, except for considering cumulative dividends received from resident legal persons in Mexico, depreciation of historical rather restated values, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due and other effects of inflation are also excluded. In Venezuela, employee profit sharing is computed at a rate equivalent to 15% of after tax income, and it is no more than four months of salary.

According to the assets and liabilities method described in NIF D-4 Income Taxes, the Company does not expect relevant deferred items to materialize. As a result, the Company has not recognized deferred employee profit sharing as of either December 31, 2011, 2010 or 2009.

Severance indemnities resulting from a restructuring program and associated with an ongoing benefit arrangement are charged to other expenses on the date when the Company has made the decision to dismiss personnel under a formal program or for specific causes.

s) Income Taxes:

Income tax is charged to results as incurred, as are deferred income taxes. For purposes of recognizing the effects of deferred income taxes in the consolidated financial statements, the Company utilizes both retrospective and prospective analysis over the medium term when more than one tax regime exists per jurisdiction and recognizes the amount based on the tax regime it expects to be subject to, in the future. Deferred income taxes assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits for which it is more likely than not that they are not realizable.

The balance of deferred taxes is comprised of monetary and non-monetary items, based on the temporary differences from which it is derived. Deferred taxes are classified as a long-term asset or liability, regardless of when the temporary differences are expected to reverse.

The Company determines deferred taxes for temporary differences of its permanent investments.

The deferred tax provision to be included in the income statement is determined by comparing the deferred tax balance at the end of the year to the balance at the beginning of the year, excluding from both balances any temporary differences that are recorded directly in stockholders' equity. The deferred taxes related to such temporary differences are recorded in the same stockholders' equity account that gave rise to them.

t) Comprehensive Financing Result:

Comprehensive financing result includes interest, foreign exchange gain and losses, market value gain or loss on ineffective portion of derivative financial instruments and gain or loss on monetary position, except for those amounts capitalized and those that are recognized as part of the cumulative comprehensive income (loss). The components of the Comprehensive Financing Result are described as follows:

- Interest: Interest income and expenses are recorded when earned or incurred, respectively, except for interest capitalized on the financing of long-term assets;
- Foreign Exchange Gains and Losses: Transactions in foreign currencies are recorded in local currencies using the exchange rate applicable on the date they occur. Assets and liabilities in foreign currencies are adjusted to the year-end exchange rate, recording the resulting foreign exchange gain or loss directly in the income statement, except for the foreign exchange gain or loss from the intercompany financing foreign currency denominated balances that are considered to be of a long-term investment nature and the foreign exchange gain or loss from the financing of long-term assets (see Note 3);
- Gain or Loss on Monetary Position: The gain or loss on monetary position results from the changes in the general price level of monetary accounts of those subsidiaries that operate in inflationary environments (see Note 4 A), which is determined by applying inflation factors of the country of origin to the net monetary position at the beginning of each month and excluding the intercompany financing in foreign currency that is considered as long-term investment because of its nature (see Note 3), as well as the gain or loss on monetary position from long-term liabilities to finance long-term assets, and
- Market Value Gain or Loss on Ineffective Portion of Derivative Financial Instruments: Represents the net change in the fair value of the ineffective portion of derivative financial instruments, the net change in the fair value of those derivative financial instruments that do not meet hedging criteria for accounting purposes; and the net change in the fair value of embedded derivative financial instruments.

u) Derivative Financial Instruments:

The Company is exposed to different risks related to cash flows, liquidity, market and credit. As a result the Company contracts in different derivative financial instruments in order to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies, the risk of exchange rate and interest rate fluctuations associated with its borrowings denominated in foreign currencies and the exposure to the risk of fluctuation in the costs of certain raw materials.

The Company values and records all derivative financial instruments and hedging activities, including certain derivative financial instruments embedded in other contracts, in the balance sheet as either an asset or liability measured at fair value, considering quoted prices in recognized markets. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable market data, recognized in the financial sector. Changes in the fair value of derivative financial instruments are recorded each year in current earnings or as a component of cumulative other comprehensive income (loss), based on the item being hedged and the ineffectiveness of the hedge.

As of December 31, 2011 and 2010, the balance in other current assets of derivative financial instruments was Ps. 511 and Ps. 24 (see Note 8), and in other assets Ps. 850 and Ps. 708 (see Note 12), respectively. The Company recognized liabilities regarding derivative financial instruments in other current liabilities of Ps. 69 and Ps. 41 (see Note 24 A), as of the end of December 31, 2011 and 2010, respectively, and other liabilities of Ps. 565 and Ps. 653 (see Note 24 B) for the same periods.

The Company designates its financial instruments as cash flows hedges at the inception of the hedging relationship when transactions meet all hedging accounting requirements. For cash flows hedges, the effective portion is recognized temporarily in cumulative other comprehensive income (loss) within stockholders' equity and subsequently reclassified to current earnings at the same time the hedged item is recorded in earnings. When derivative financial instruments do not meet all of the accounting requirements for hedging purposes, the change in fair value is immediately recognized in net income. For fair value hedges, the changes in the fair value are recorded in the consolidated results in the period the change occurs as part of the market value gain or loss on ineffective portion of derivative financial instruments.

The Company identifies embedded derivatives that should be segregated from the host contract for purposes of valuation and recognition. When an embedded derivative is identified and the host contract has not been stated at fair value, the embedded derivative is segregated from the host contract, stated at fair value and is classified as trading. Changes in the fair value of the embedded derivatives at the closing of each period are recognized in the consolidated results.

v) Cumulative Other Comprehensive Income (OCI):

The cumulative other comprehensive income represents the period net income as described in NIF B-3 “Income Statement,” plus the cumulative translation adjustment resulted from translation of foreign subsidiaries and associates to Mexican pesos and the effect of unrealized gain/loss on cash flows hedges from derivative financial instruments.

	<u>2011</u>	<u>2010</u>
Unrealized gain on cash flows hedges	Ps. 367	Ps. 140
Cumulative translation adjustment	5,463	6
	<u>Ps. 5,830</u>	<u>Ps. 146</u>

The changes in the cumulative translation adjustment (“CTA”) were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Initial balance	Ps. 6	Ps. 2,894	Ps. (826)
Recycling of CTA from FEMSA Cerveza business (see Note 5 B)	—	(1,418)	—
Gain (loss) translation effect	5,436	(3,031)	2,183
Foreign exchange effect from intercompany long-term loans	21	1,561	1,537
Ending balance	<u>Ps. 5,463</u>	<u>Ps. 6</u>	<u>Ps. 2,894</u>

The changes in the deferred income tax from the cumulative translation adjustment amounted to a provision of Ps. 2,779 and a credit of Ps. 352 for the years ended December 2011 and 2010, respectively (see Note 23 C).

w) Provisions:

Provisions are recognized for obligations that result from a past event that will probably result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant. The Company has recognized provisions regarding contingencies and vacations in the consolidated financial statements.

x) Issuances of Subsidiary Stock:

The Company recognizes issuances of a subsidiary’s stock as a capital transaction. The difference between the book value of the shares issued and the amount contributed by the non-controlling interest holder or a third party is recorded as additional paid-in capital.

y) Earnings per Share:

Earnings per share are determined by dividing net controlling interest income by the average weighted number of shares outstanding during the period.

Earnings per share before discontinued operations are calculated by dividing consolidated net income before discontinued operations by the average weighted number of shares outstanding during the period.

Earnings per share from discontinued operations are calculated by dividing net income from discontinued operations plus income from the exchange of shares with Heineken, net of taxes, by the average weighted number of shares outstanding during the period.

z) Information by Segment:

The analytical information by segment is presented considering the business units (Subholding Companies as defined in Note 1) and geographic areas in which the Company operates, which is consistent with the internal reporting presented to the Chief Operating Decision Maker, which is considered to be the main authority of the entity. A segment is a component of the Company that engages in business activities from which it earns or is in the process of obtaining revenues, and incurs in the

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related costs and expenses, including revenues and costs and expenses that relate to transactions with any of Company's other components. All segments' operating results are reviewed regularly by the Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which financial information is available.

The main indicators used by the Chief Operating Decision Maker to evaluate performance of the Company in each segment are its income from operations and cash flow from operations before changes in working capital and provisions, which the Company defined as the result of subtracting cost of sales and operating expenses from total revenues and income from operations plus depreciation and amortization, respectively. Inter-segment transfers or transactions are entered and presented into under accounting policies of each segment which are the same to those applied by the Company. Intercompany operations are eliminated and presented within the consolidation adjustment column included in the table in Note 25. Unallocated results items comprise other expenses, net and other net finance expenses (see Note 25).

aa) **Business Combinations:**

Business combinations are accounted for using the acquisition method of accounting which includes an allocation of the estimated fair value of the purchase price to the net assets acquired. Once the purchase price has been allocated, the Company measures its goodwill, as the fair value of the consideration transferred including any contingent consideration less the net recognized amount of the identifiable assets acquired and liabilities assumed.

The valuation of the identifiable assets, in particular intangible assets related distribution rights, requires the Company to make significant assumptions, and also require judgments and estimates. A change in any of these estimates or judgments could change the amount of the purchase price to be allocated to the particular asset or liability and goodwill could be affected by these changes.

Cost related to the acquisition, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with the business combination are expensed as incurred as part of the administrative expenses.

Note 5. Acquisitions and Disposals

a) **Acquisitions:**

Coca-Cola FEMSA made certain business acquisitions that were recorded using the purchase method. The results of the acquired operations have been included in the consolidated financial statements since Coca-Cola FEMSA obtained control of acquired businesses as disclosed below. Therefore, the consolidated income statements and the consolidated balance sheets in the years of such acquisitions are not comparable with previous periods. The consolidated cash flows for the years ended December 31, 2011 and 2009 show the acquired operations net of the cash related to those acquisitions. In 2010 the Company did not have any significant business combinations.

- i) On October 10, 2011, Coca-Cola FEMSA completed the acquisition of 100% of Administradora de Acciones del Noreste, S.A. de C.V. ("Grupo Tampico") a bottler of Coca-Cola trademark products in the states of Tamaulipas, San Luis Potosí and Veracruz; as well as in parts of the states of Hidalgo, Puebla and Queretaro. This acquisition was made so as to reinforce the Coca-Cola FEMSA's leadership position in Mexico and Latin America. The transaction involved: (i) the issuance of 63,500,000 shares of previously unissued Coca-Cola FEMSA L shares, and (ii) the assumption of certain debt of Ps. 2,436, in exchange for 100% share ownership of Grupo Tampico, which was accomplished through a merger. The total purchase price was Ps. 10,264 based on a share price of 123.27 per share on October 10, 2011. Transaction related costs of Ps. 20 were expensed by the Coca-Cola FEMSA as incurred as required by Mexican FRS, and recorded as a component of administrative expenses in the accompanying consolidated statements of income. Grupo Tampico was included in operating results from October, 2011.

The Coca-Cola FEMSA's estimate of fair value of the Grupo Tampico's net assets acquired is as follows:

Total current assets, including cash acquired of Ps. 22	Ps. 461
Total non-current assets	2,529
Distribution rights	5,499
Goodwill	2,579
Total assets	<u>11,068</u>
Debt	(2,436)
Other liabilities	(804)
Total liabilities	<u>(3,240)</u>
Net assets acquired	<u>7,828</u>
Consideration transferred through issuance of shares	Ps. 7,828
Debt paid by Coca-Cola FEMSA	2,436
Total purchase price	<u>10,264</u>

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The condensed income statement of Grupo Tampico for the period from October 10 to December 31, 2011 is as follows:

Income Statement	
Total revenues	Ps. 1,056
Income from operations	117
Income before taxes	43
Net income	<u>Ps. 31</u>

- ii) On December 9, 2011, Coca-Cola FEMSA completed the acquisition of 100% of Corporación de los Angeles, S.A. de C.V. ("Grupo CIMSA"), a bottler of Coca-Cola trademark products, which operates mainly in the states of Morelos and Mexico, as well as in parts of the states of Guerrero and Michoacan, Mexico. This acquisition was also made so as to reinforce the Coca-Cola FEMSA's leadership position in Mexico and Latin America. The transaction involved the issuance of 75,423,728 shares of previously unissued Coca-Cola FEMSA L shares along with the cash payment prior to closing of Ps. 2,100 in exchange for 100% share ownership of Grupo CIMSA, which was accomplished through a merger. The total purchase price was Ps. 11,117 based on a share price of Ps. 119.55 per share on December 9, 2011. Transaction related costs of Ps. 24 were expensed by the Coca-Cola FEMSA as incurred as required by Mexican FRS, and recorded as a component of administrative expenses in the accompanying consolidated statements of income. Grupo CIMSA was included in operating results from December 2011.

Coca-Cola FEMSA, preliminary estimate of fair value of the Grupo CIMSA's net assets acquired is as follows:

Total current assets, including cash acquired of Ps. 188	Ps. 737
Total non-current assets	2,802
Distribution rights	6,228
Goodwill	1,936
Total assets	<u>11,703</u>
Total liabilities	<u>(586)</u>
Net assets acquired	<u>11,117</u>
Consideration transferred through issuance of shares	Ps. 9,017
Cash paid by Coca-Cola FEMSA	2,100
Total purchase price	<u>11,117</u>

Coca-Cola FEMSA's purchase price allocation is preliminary in nature in that its estimation of the fair value of property and equipment and distribution rights is pending receipt of final valuation reports by a third-party valuation experts. To date, only draft reports have been received.

The condensed income statement of Grupo CIMSA for the period from December 12, to December 31, 2011 is as follows:

Total revenues	Ps. 429
Income from operations	60
Income before taxes	32
Net income	<u>Ps. 23</u>

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- iii) On February 27, 2009, Coca-Cola FEMSA, along with The Coca-Cola Company, completed the acquisition of certain assets of the Brisa bottled water business in Colombia. This acquisition was made so as to strengthen Coca-Cola FEMSA's position in the local water business in Colombia. The Brisa bottled water business was previously owned by a subsidiary of SABMiller. Terms of the transaction called for an initial purchase price of \$92, of which \$46 was paid by Coca-Cola FEMSA and \$46 by The Coca-Cola Company. The Brisa brand and certain other intangible assets were acquired by The Coca-Cola Company, while production related property and equipment and inventory was acquired by Coca-Cola FEMSA. Coca-Cola FEMSA also acquired the distribution rights over Brisa products in its Colombian territory. In addition to the initial purchase price, contingent purchase consideration also existed related to the net revenues of the Brisa bottled water business subsequent to the acquisition. The total purchase price incurred by Coca-Cola FEMSA was Ps. 730, consisting of Ps. 717 in cash payments, and accrued liabilities of Ps. 13. Transaction related costs were expensed by Coca-Cola FEMSA as incurred, as required by Mexican FRS. Following a transition period, Brisa was included in Coca-Cola FEMSA's operating results beginning June 1, 2009.

The estimated fair value of Brisa's net assets acquired by Coca-Cola FEMSA is as follows:

Production related property and equipment, at fair value	Ps. 95
Distribution rights, at fair value, with an indefinite life	635
Net assets acquired / purchase price	<u>Ps. 730</u>

Brisa's results operation for the period from the acquisition through December 31, 2009 were not material to our consolidated results of operations.

- iv) Unaudited Pro Forma Financial Data.

The following unaudited consolidated pro forma financial data represent the Company's historical financial statements, adjusted to give effect to (i) the acquisitions of Grupo Tampico and Grupo CIMSA mentioned in the preceding paragraphs; and (ii) certain accounting adjustments mainly related to the pro forma depreciation of fixed assets of the acquired companies.

The unaudited pro forma adjustments assume that the acquisitions were made at the beginning of the year immediately preceding the year of acquisition, and are based upon available information and other assumptions that management considers reasonable. The pro forma financial information data does not purport to represent what the effect on the Company's consolidated operations would have been for each year, had the transactions in fact occurred on January 1, 2010, nor are they intended to predict the Company's future results of operations.

	FEMSA unaudited pro forma consolidated results for the years ended December 31,	
	2011	2010
Total revenues	Ps. 212,264	Ps. 177,857
Income before income taxes	29,296	24,268
Consolidated net income before discontinued operations	21,319	18,389
Net controlling interest income before discontinued operations per share Series "B"	0.77	0.66
Net controlling interest income before discontinued operations per share Series "D"	<u>0.96</u>	<u>0.82</u>

b) Disposals:

- i) On April 30, 2010 FEMSA exchanged 100% of FEMSA Cerveza, the beer business unit, for 20% economic interest in Heineken. Under the terms of the agreement, FEMSA exchanged its beer business and received 43,018,320 shares of Heineken Holding N.V., and 72,182,203 shares of Heineken N.V., of which 29,172,504 will be delivered pursuant to an allotted share delivery instrument ("ASDI"). Those shares are considered in substance common stock due to its similarity to common stock, such as rights to receive the same dividends as any other share. Under the ASDI, it was expected that the allotted shares would be acquired by Heineken in the secondary market for delivery to FEMSA over a term not to exceed five years. As of December 31, 2011, the process of delivery of all shares has been completed (and 10,240,553 shares had been delivered to the Company as of December 31, 2010) (see Note 9).

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The total transaction was valued approximately at \$7,347, including assumed debt of \$2,100, based on shares closing prices of € 35.18 for Heineken N.V., and € 30.82 for Heineken Holding N.V. on April 30, 2010. The Company recorded a net gain after taxes that amounted to Ps. 26,623 which is the difference between the fair value of the consideration received and the book value of FEMSA Cerveza as of April 30, 2010; a deferred income tax of Ps. 10,379 (see “Income from the exchange of shares with Heineken, net of taxes” in the consolidated income statements and Note 23 C), and recycling Ps. 525 (see consolidated statements of changes in stockholders’ equity) from other comprehensive income which are integrated of Ps.1,418 accounted as a gain of cumulative translation adjustment and Ps. 893 as a mark to market loss on derivatives in cumulative comprehensive loss. Additionally, the Company maintained a loss contingency of Ps. 560 as of December 31, 2010, regarding the indemnification accorded with Heineken over FEMSA Cerveza prior tax contingencies. This contingency amounted to Ps. 445 as of December 31, 2011 and Ps. 113 has been reclassified to other current liabilities (see Note 24 B).

As of the date of the exchange, the Company lost control over FEMSA Cerveza and stopped consolidating its financial information and accounted for the 20% economic interest of Heineken acquired by the purchase method as established in NIF C-7 “Investments in Associates and Other Permanent Investments.” Subsequently, this investment in shares has been accounted for by the equity method, because of the Company’s significant influence.

After purchase price adjustments, the Company identified intangible assets of indefinite and finite life brands and goodwill that amounted to € 15,274 million and € 1,200 million respectively and increased certain operating assets and liabilities to fair value, which are presented as part of the investment in shares of Heineken within the consolidated financial statement.

The fair values of the proportional assets acquired and liabilities assumed as part of this transaction are as follows:

<u>In millions of euros</u>	<u>Heineken Figures at Fair Value</u>	<u>Fair Value of Proportional Net Assets Acquired by FEMSA (20%)</u>
ASSETS		
Property, plant and equipment	8,506	1,701
Intangible assets	15,274	3,055
Other assets	4,025	805
Total non-current assets	27,805	5,561
Inventories	1,579	316
Trade and other receivable	3,240	648
Other assets	1,000	200
Total current assets	5,819	1,164
Total assets	33,624	6,725
LIABILITIES		
Loans and borrowings	9,551	1,910
Employee benefits	1,335	267
Deferred tax liabilities	2,437	487
Other non-current liabilities	736	147
Total non-current liabilities	14,059	2,811
Trade and other payables	5,019	1,004
Other current liabilities	1,221	244
Total current liabilities	6,240	1,248
Total liabilities	20,299	4,059
Net assets acquired	13,325	2,666
Goodwill identified in the acquisition		1,200
Total purchase price		3,866

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Summarized consolidated balance sheet and income statements of FEMSA Cerveza are presented as follows as of:

	April 30, 2010	
Consolidated Balance Sheet		
Current assets	Ps.13,770	
Property, plant and equipment	26,356	
Intangible assets and goodwill	18,828	
Other assets	11,457	
Total assets	70,411	
Current liabilities	14,039	
Long term liabilities	27,586	
Total liabilities	41,625	
Total stockholders' equity:		
Controlling interest	27,417	
Non-controlling interest in consolidated subsidiaries	1,369	
Total stockholders' equity	28,786	
Total liabilities and stockholders' equity	Ps.70,411	
	April 30, 2010	December 31, 2009
Consolidated Income Statements		
Total revenues	Ps. 14,490	Ps. 46,329
Income from operations	1,342	5,887
Income before income tax	749	2,231
Income tax	43	(1,052)
Consolidated net income	706	3,283
Less: Net income attributable to the non-controlling interest	48	787
Net income attributable to the controlling interest	Ps. 658	Ps. 2,496

As a result of the transaction described above, FEMSA Cerveza operations for the period ended on April 30, 2010, and December 31, 2009 are presented in a single line as discontinued operations, net of taxes in the consolidated income statement. Prior years consolidated financial statements and the accompanying notes were reformulated in order to present FEMSA Cerveza as discontinued operations for comparable purposes.

Consolidated statement of cash flows of December 31, 2010 and 2009 presents FEMSA Cerveza as discontinued operations. Intercompany transactions between the Company and FEMSA Cerveza for 2009 were reclassified in order to conform to consolidated financial statements as of December 31, 2010.

- ii) On September 23, 2010, the Company disposed of its subsidiary Promotora de Marcas Nacionales, S.A. de C.V. for which it received a payment of Ps.1,002 from The Coca-Cola Company. The Company recognized a gain of Ps. 845 as a sale of shares within other expenses, which is the difference between the fair value of the consideration received and the carrying value of the net assets disposed.
- iii) On December 31, 2010, the Company disposed of its subsidiary Grafo Regia, S.A. de C.V for which it received a payment of Ps. 1,021. The Company recognized a gain of Ps. 665, as a sale of shares within other expenses, which is the difference between the fair value of the consideration received and the carrying value of the net assets disposed.

Note 6. Accounts Receivable

	2011	2010
Trade	Ps. 8,175	Ps. 5,739
Allowance for doubtful accounts	(343)	(249)
The Coca-Cola Company	1,157	1,030
Notes receivable	339	402
Loans to employees	146	111
Travel advances to employees	54	51
Other	971	618
	Ps. 10,499	Ps. 7,702

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The changes in the allowance for doubtful accounts are as follows:

	2011	2010	2009
Opening balance	Ps. 249	Ps. 246	Ps. 206
Provision for the year	173	113	91
Write-off of uncollectible accounts	(86)	(100)	(76)
Translation of foreign currency effect	7	(10)	25
Ending balance	<u>Ps. 343</u>	<u>Ps. 249</u>	<u>Ps. 246</u>

Note 7. Inventories

	2011	2010
Finished products	Ps. 8,339	Ps. 7,222
Raw materials	3,656	2,674
Spare parts	779	710
Work in process	82	60
Goods in transit	1,529	648
	<u>Ps. 14,385</u>	<u>Ps. 11,314</u>

Note 8. Other Current Assets

	2011	2010
Prepaid expenses	Ps. 1,266	Ps. 638
Long-lived assets available for sale	26	125
Agreements with customers	194	85
Derivative financial instruments	511	24
Short-term licenses	28	24
Other	89	142
	<u>Ps. 2,114</u>	<u>Ps. 1,038</u>

Prepaid expenses as of December 31, 2011 and 2010 are as follows:

	2011	2010
Advances for inventories	Ps. 497	Ps. 133
Advertising and promotional expenses paid in advance	211	207
Advances to service suppliers	259	154
Prepaid leases	85	84
Prepaid insurance	58	31
Other	156	29
	<u>Ps. 1,266</u>	<u>Ps. 638</u>

The advertising and deferred promotional expenses recorded in the consolidated income statements for the years ended December 31, 2011, 2010 and 2009 amounted to Ps. 5,076 Ps. 4,406 and Ps. 3,629, respectively.

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Note 9. Investments in Shares

Company	% Ownership	2011	2010
Heineken Group ^{(1) (2)}	20.00% ⁽³⁾	Ps. 75,075	Ps. 66,478
Coca-Cola FEMSA:			
Compañía Panameña de Bebidas S.A.P.I., S.A. de C.V. ⁽²⁾	50.00%	703	—
SABB Sistema de Alimentos e Bebidas Do Brasil, LTDA ^{(2) (4)}	19.73%	931	814
Jugos del Valle, S.A.P.I. de C.V. ^{(1) (2)}	23.99%	819	603
Holdfab2 Participacoes Societarias, (“Holdfab2”), LTDA ⁽²⁾	27.69%	262	300
Industria Envasadora de Querétaro, S.A. de C.V. (“IEQSA”) ^{(1) (2)}	19.20%	100	67
Industria Mexicana de Reciclaje, S.A. de C.V. ⁽²⁾	35.00%	70	69
Estancia Hidromineral Itabirito, LTDA ⁽²⁾	50.00%	142	87
Beta San Miguel, S.A. de C.V. (“Beta San Miguel”) ⁽⁵⁾	2.54%	69	69
KSP Participações, LTDA ⁽²⁾	38.74%	102	93
Promotora Industrial Azucarera, S.A. de C.V. (“PIASA”) ⁽²⁾	13.20%	281	—
Dispensadoras de Café, S.A.P.I. de C.V. ⁽²⁾	50.00%	161	—
Other	Various	16	6
Other investments ⁽⁶⁾	Various	241	207
		Ps. 78,972	Ps. 68,793

(1) The Company has significant influence due to the fact of its representation in the Board of Directors in those companies.

(2) Equity method. The date of the financial statements of the investees used to account for the equity method is the same as the one used in the Company consolidated financial statements.

(3) As of December 31, 2011, comprised of 12.53% of Heineken, N.V. and 14.94% of Heineken Holding, N.V., which represents an economic interest of 20% in Heineken (see Note 5 B).

(4) During June 2011, a reorganization of the Coca-Cola FEMSA Brazilian investments occurred by way of a merger of the companies Sucos del Valle Do Brasil, LTDA and Mais Industria de Alimentos, LTDA giving rise to a new company by the name of Sistema de Alimentos e Bebidas do Brasil, LTDA.

(5) Acquisition cost.

(6) Includes 45.00% ownership investments in Energía Alterna Istmeña, S. de R.L. de C.V. and Energía Eólica Mareña, S.A. de C.V.

As mentioned in Note 5, on December 9, 2011, Coca-Cola FEMSA completed the acquisition of 100% of Corporación de los Angeles, S.A. de C.V. (“Grupo CIMSA”). As part of the acquisition of Grupo CIMSA, the Company also acquired a 13.20% equity interest in Promotora Industrial Azucarera S.A. de C.V.

On March 28, 2011 Coca-Cola FEMSA made an initial investment for Ps. 620 together with The Coca-Cola Company in Compañía Panameña de Bebidas S.A.P.I. de C.V. (Grupo Estrella Azul), a Panamanian conglomerate in the dairy and juice-based beverage categories business in Panama. The investment of Coca-Cola FEMSA represents 50% of ownership.

On March 17, 2011, a consortium of investors formed by FEMSA, the Macquarie Mexican Infrastructure Fund and other investors, acquired Energía Alterna Istmeña, S. de R.L. de C.V., which we refer to as EAI, and Energía Eólica Mareña, S.A. de C.V., which we refer to as EEM, from subsidiaries of Preneal, S.A., which we refer to as Preneal. EAI and EEM are the owners of a 396 megawatt late-stage wind energy project in the southeastern region of the State of Oaxaca. This project is expected to be the largest wind power farm in Latin America.

In August 2010, Coca-Cola FEMSA made an investment for approximately Ps. 295 (40 million Brazilian Reais) in Holdfab2 Participações Societárias, LTDA representing a 27.69% interest. Holdfab2 has a 50% investment in Leao Junior, a tea producer company in Brazil.

During 2010, the shareholders of Jugos del Valle, including Coca-Cola FEMSA, agreed to spin-off the distribution rights. Those shareholders now purchase product directly from Jugos del Valle for resale to their customers. This reorganization resulted in a decrease of Coca-Cola FEMSA’s investment in shares of Ps. 735 and an increase to its intangible assets (distribution rights of a separate legal entity) for the same amount. During 2011, Coca-Cola FEMSA increased its ownership percentage in Jugos del Valle from 19.80% to 23.99% as a result of the holdings of the acquired companies disclosed in Note 5.

Heineken’s main activities are the production, distribution and marketing of beer worldwide. The Company recognized an equity income of Ps. 5,080 and Ps. 3,319 regarding its interest in Heineken, for the year ended December 31, 2011 and the period from May 1, 2010 to December 31, 2010, respectively.

The following is some relevant financial information from Heineken under IFRS as of December 31, 2011 and 2010 and the consolidated results for the full years as of December 31, 2011 and 2010:

<u>In millions of euros</u>	<u>2011</u>	<u>2010⁽¹⁾</u>
Current assets	4,708	4,318
Long-term assets	22,419	22,344
Total assets	27,127	26,662
Current liabilities	6,159	5,623
Long-term liabilities	10,876	10,819
Total liabilities	17,035	16,442
Total stockholders' equity	10,092	10,220
<u>In millions of euros</u>	<u>2011</u>	<u>2010⁽¹⁾</u>
Total revenues and other income	17,187	16,372
Total expenses	(14,972)	(14,074)
Results from operating activities	2,215	2,298
Profit before income tax	2,025	1,982
Income tax	(465)	(403)
Profit	1,560	1,579
Profit attributable to equity holders of the company	1,430	1,447
Total comprehensive income	1,007	2,130
Total comprehensive income attributable to equity holders of the company	884	1,983

(1) Heineken adjusted its comparative figures due to the accounting policy change in employee benefits.

As of December 31, 2011 and 2010 fair value of Company's investment in Heineken N.V. Holding and Heineken N.V. represented by shares equivalent to 20% of its outstanding shares amounted to € 3,942 million and € 4,048 million based on quoted market prices of those dates. As of April 27, 2012, issuance date of these consolidated financial statements, fair value amounted to € 4,517 million.

During the years ended December 31, 2011 and 2010, the Company has received dividends distributions from Heineken, amounted to Ps. 1,661 and Ps. 1,304, respectively.

Note 10. Property, Plant and Equipment.

<u>Cost</u>	<u>Land</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Refrigeration Equipment</u>	<u>Bottles and Cases</u>	<u>Investments in Fixed Assets in Progress</u>	<u>Not Strategic Assets</u>	<u>Others</u>	<u>Total</u>
Cost as of January 1, 2010	Ps. 5,412	Ps. 12,020	Ps. 39,638	Ps. 9,027	Ps. 2,029	Ps. 2,825	Ps. 330	Ps. 527	Ps. 71,808
Additions	106	322	3,045	834	1,013	4,155	—	115	9,590
Transfer of completed projects in progress	—	238	2,096	700	409	(3,443)	—	—	—
Transfer to/(from) assets classified as held for sale	(64)	7	21	—	—	—	71	—	35
Disposals	(57)	(116)	(2,515)	(540)	(611)	(40)	(29)	(32)	(3,940)
Effects of changes in foreign exchange rates	(269)	—	(5,096)	(730)	—	(495)	(140)	(214)	(6,944)
Changes in value on the recognition of inflation effects	98	470	1,029	249	14	47	—	64	1,971
Capitalization of comprehensive financing result	—	—	—	—	—	(33)	—	—	(33)
Cost as of December 31, 2010	<u>Ps. 5,226</u>	<u>Ps. 12,941</u>	<u>Ps. 38,218</u>	<u>Ps. 9,540</u>	<u>Ps. 2,854</u>	<u>Ps. 3,016</u>	<u>Ps. 232</u>	<u>Ps. 460</u>	<u>Ps. 72,487</u>

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Cost	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Bottles and Cases	Investments in Fixed Assets in Progress	Not Strategic Assets	Others	Total
Cost as of January 1, 2011	Ps. 5,226	Ps. 12,941	Ps. 38,218	Ps. 9,540	Ps. 2,854	Ps. 3,016	Ps. 232	Ps. 460	Ps. 72,487
Additions and acquired in business combination	830	1,552	5,507	1,535	1,441	4,274	—	184	15,323
Transfer of completed projects in progress	23	280	2,466	380	398	(3,547)	—	—	—
Transfer to/(from) assets classified as held for sale	125	108	6	—	—	—	(42)	—	197
Disposals	(57)	(50)	(2,294)	(463)	(694)	—	(109)	(114)	(3,781)
Effects of changes in foreign exchange rates	183	2	1,701	481	110	108	20	44	2,649
Changes in value on the recognition of inflation effects	114	571	1,368	301	31	83	—	11	2,479
Capitalization of comprehensive financing result	—	—	—	—	—	(14)	—	—	(14)
Cost as of December 31, 2011	Ps. 6,444	Ps. 15,404	Ps. 46,972	Ps. 11,774	Ps. 4,140	Ps. 3,920	Ps. 101	Ps. 585	Ps. 89,340

Accumulated Depreciation

Accumulated Depreciation as of January 1, 2010	Ps. —	Ps. (3,487)	Ps. (22,044)	Ps. (6,016)	Ps. (171)	Ps. —	Ps. —	Ps. (195)	Ps. (31,913)
Depreciation for the year	—	(314)	(2,707)	(754)	(701)	—	—	(51)	(4,527)
Transfer (to)/from assets classified as held for sale	—	—	64	—	—	—	—	—	64
Disposals	—	32	1,951	528	215	—	—	1	2,727
Effects of changes in foreign exchange rates	—	—	3,231	642	56	—	—	85	4,014
Changes in value on the recognition of inflation effects	—	(224)	(526)	(177)	—	—	—	(15)	(942)
Accumulated Depreciation as of December 31, 2010	Ps. —	Ps. (3,993)	Ps. (20,031)	Ps. (5,777)	Ps. (601)	Ps. —	Ps. —	Ps. (175)	Ps. (30,577)

Accumulated Depreciation	Land	Buildings	Machinery and Equipment	Refrigeration Equipment	Bottles and Cases	Investments in Fixed Assets in Progress	Not Strategic Assets	Others	Total Cost
Accumulated Depreciation as of January 1, 2011	Ps. —	Ps. (3,993)	Ps. (20,031)	Ps. (5,777)	Ps. (601)	Ps. —	Ps. —	Ps. (175)	Ps. (30,577)
Depreciation for the year	—	(361)	(3,197)	(1,000)	(894)	—	—	(46)	(5,498)
Transfer (to)/from assets classified as held for sale	—	(46)	7	—	—	—	—	—	(39)
Disposals	—	4	2,130	206	201	—	—	64	2,605
Effects of changes in foreign exchange rates	—	1	(957)	(339)	22	—	—	(28)	(1,301)
Changes in value on the recognition of inflation effects	—	(300)	(645)	(166)	—	—	—	(17)	(1,128)
Accumulated Depreciation as of December 31, 2011	Ps. —	Ps. (4,695)	Ps. (22,693)	Ps. (7,076)	Ps. (1,272)	Ps. —	Ps. —	Ps. (202)	Ps. (35,938)

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<u>Carrying Amount</u>	<u>Land</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Refrigeration Equipment</u>	<u>Bottles and Cases</u>	<u>Investments in Fixed Assets in Progress</u>	<u>Not Strategic Assets</u>	<u>Others</u>	<u>Total</u>
As of January 1, 2010	Ps. 5,412	Ps. 8,533	Ps. 17,594	Ps. 3,011	Ps. 1,858	Ps. 2,825	Ps. 330	Ps. 332	Ps. 39,895
As of December 31, 2010	5,226	8,948	18,187	3,763	2,253	3,016	232	285	41,910
As of December 31, 2011	6,444	10,709	24,279	4,698	2,868	3,920	101	383	53,402

During the years ended December 31, 2011, 2010 and 2009 the Company capitalized (Ps. 14), (Ps. 33) and Ps. 13, respectively in comprehensive financing costs in relation to Ps. 256, Ps. 708 and Ps. 158 in qualifying assets. Amounts were capitalized assuming an annual capitalization rate of 5.8%, 5.3% and 7.2%, respectively.

For the years ended December 31, 2011, 2010 and 2009 the comprehensive financing result is analyzed as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Comprehensive financing result	Ps. 939	Ps. 2,165	Ps. 2,682
Amount capitalized	156	12	55
Net amount in income statements	<u>Ps. 783</u>	<u>Ps. 2,153</u>	<u>Ps. 2,627</u>

The Company has identified certain long-lived assets that are not strategic to the current and future operations of the business and are not being used, comprised of land, buildings and equipment, in accordance with an approved program for the disposal of certain investments. Such long-lived assets have been recorded at the lower of cost or net realizable value, as follows:

	<u>2011</u>	<u>2010</u>
Coca-Cola FEMSA	<u>Ps. 79</u>	Ps. 189
Other subsidiaries	22	43
	<u>Ps. 101</u>	<u>Ps. 232</u>
Buildings	<u>Ps. 39</u>	Ps. 64
Land	56	139
Equipment	6	29
	<u>Ps. 101</u>	<u>Ps. 232</u>

As a result of selling certain not strategic long-lived assets, the Company recognized gain of Ps. 85, loss of Ps. 41, and a gain of Ps. 6 for the years ended December 31, 2011, 2010 and 2009, respectively.

Long-lived assets that are available for sale have been reclassified from property, plant and equipment to other current assets. As of December 31, 2011 and 2010, long-lived assets available for sale amounted to Ps. 26 and Ps. 125 (see Note 8).

Note 11. Intangible Assets

	2011	2010
Unamortized intangible assets:		
Coca-Cola FEMSA:		
Rights to produce and distribute Coca-Cola trademark products	Ps. 63,521	Ps. 49,169
Goodwill from Grupo Tampico acquisition – Mexico (see Note 5 A)	2,579	—
Goodwill from Grupo CIMSA acquisition – Mexico (see Note 5 A)	1,936	—
Other subsidiaries:		
Other unamortized intangible assets	343	462
	Ps. 68,379	Ps. 49,631
Amortized intangible assets:		
Systems in development costs, net	Ps. 1,743	Ps. 1,788
Technology costs and management systems	990	396
Alcohol licenses, net (see Note 4 J)	438	410
Other	58	115
	Ps. 3,229	Ps. 2,709
Total intangible assets	Ps. 71,608	Ps. 52,340

The changes in the carrying amount of unamortized intangible assets are as follows:

	2011	2010
Beginning balance	Ps. 49,631	Ps. 50,143
Acquisitions	16,478 ⁽¹⁾	833
Cancellations	(119)	(151)
Impairment	—	(10)
Translation and restatement of foreign currency effect	2,389	(1,184)
Ending balance	Ps. 68,379	Ps. 49,631

(1) Includes Ps. 8,078 and Ps. 8,164 for acquisitions of Grupo Tampico and Grupo CIMSA, respectively (see Note 5 A).

The changes in the carrying amount of amortized intangible assets are as follows:

	Investments			Amortization			
	Accumulated at the Beginning of the Year	Additions ⁽¹⁾	Capitalization of Comprehensive Financing Result	Transfer of Completed Project	Accumulated at the Beginning of the Year	For the Year	Total
2011							
Systems in development costs	Ps. 1,788	Ps. 249	Ps. 170	Ps. (464)	Ps. —	Ps. —	Ps. 1,743
Technology costs and management systems	1,465	337	—	464	(1,069)	(207)	990
Alcohol licenses ⁽¹⁾	495	60	—	—	(85)	(32)	438
2010							
Systems in development costs	Ps. 1,188	Ps. 706	Ps. 45	Ps. (151)	Ps. —	Ps. —	Ps. 1,788
Technology costs and management systems	1,197	117	—	151	(887)	(182)	396
Alcohol licenses ⁽¹⁾	271	224	—	—	(48)	(37)	410
2009							
Systems in development costs	Ps. 333	Ps. 813	Ps. 42	Ps. —	Ps. —	Ps. —	Ps. 1,188
Technology costs and management systems	963	234	—	—	(675)	(212)	310
Alcohol licenses ⁽¹⁾	169	102	—	—	(31)	(17)	223

(1) See Note 4 J.

During the years ended December 31, 2011, 2010 and 2009 the Company capitalized Ps. 170, Ps. 45 and Ps. 42, respectively in comprehensive financing costs in relation to Ps. 1,761, Ps. 1,221 and Ps. 687 in qualifying assets. Amounts were capitalized assuming an annual capitalization rate of 5.8%, 5.3%, and 7.2%, respectively and an estimated life of the qualifying assets of seven years.

The estimated amortization for intangible assets of definite life is as follows:

	2012	2013	2014	2015	2016
Systems amortization	Ps. 481	Ps. 409	Ps. 362	Ps. 347	Ps. 337
Alcohol licenses	33	38	43	49	56
Others	17	15	13	13	13

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Note 12. Other Assets

	2011	2010
Leasehold improvements, net	Ps. 6,135	Ps. 5,261
Agreements with customers (see Note 4 I)	256	186
Derivative financial instruments	850	708
Guarantee deposits	948	897
Long-term accounts receivable	1,856	681
Advertising and promotional expenses	112	125
Property, plant and equipment paid in advance	296	226
Other	841	645
	Ps. 11,294	Ps. 8,729

Long-term accounts receivable are comprised of Ps. 1,829 and Ps. 27 of principal and interest, respectively, and are expected to be collected as follows:

2012	Ps. 10
2013	126
2014	63
2015	1,657
	Ps. 1,856

Note 13. Balances and Transactions with Related Parties and Affiliated Companies

Balances and transactions with related parties and affiliated companies include consideration of: a) the overall business in which the reporting entity participates; b) close family members of key officers; and c) any fund created in connection with a labor related compensation plan.

On April 30, 2010, the Company lost control over FEMSA Cerveza, which became a subsidiary of Heineken Group. As a result, balances and transactions with Heineken Group and subsidiaries are presented since that date as balances and transactions with related parties. Balances and transactions prior to that date are not disclosed because they were not transactions between related parties of the Company.

The consolidated balance sheets and income statements include the following balances and transactions with related parties and affiliated companies:

Balances	2011	2010
Due from The Coca-Cola Company (see Note 4 L) ⁽¹⁾	Ps. 1,157	Ps. 1,030
Balance with BBVA Bancomer, S.A. de C.V. ⁽²⁾	2,791	2,944
Balance with Grupo Financiero Banamex, S.A. de C.V. ⁽²⁾	—	2,103
Due from Heineken Group ⁽¹⁾	857	425
Due from Grupo Estrella Azul ⁽³⁾	785	—
Other receivables ⁽¹⁾	494	295
Due to BBVA Bancomer, S.A. de C.V. ⁽⁴⁾	Ps. 1,106	Ps. 999
Due to The Coca-Cola Company ⁽⁵⁾	2,853	1,911
Due to Grupo Financiero Banamex, S.A. de C.V. ⁽⁴⁾	—	500
Due to British American Tobacco Mexico ⁽⁵⁾	316	287
Due to Heineken Group ⁽⁵⁾	2,148	1,463
Other payables ⁽⁵⁾	508	210

- (1) Recorded as part of total of receivable accounts.
- (2) Recorded as part of cash and cash equivalents.
- (3) Recorded as part of total other assets.
- (4) Recorded as part of total bank loans.
- (5) Recorded as part of total accounts payable.

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<u>Transactions</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Income:			
Services and others to Heineken Group	Ps. 2,169	Ps. 1,048	Ps. —
Logistic services to Grupo Industrial Saltillo, S.A. de C.V.	241	241	234
Sales of Grupo Inmobiliario San Agustín, S.A. shares to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C.	—	62	64
Other revenues from related parties	383	42	22
Expenses:			
Purchase of concentrate from The Coca-Cola Company ⁽¹⁾	21,183	19,371	16,863
Purchases of raw material, beer and operating expenses from Heineken Group ⁽¹⁾⁽²⁾	9,397	7,063	—
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. ⁽²⁾	2,270	2,018	1,733
Purchase of cigarettes from British American Tobacco Mexico ⁽²⁾	1,964	1,883	1,413
Advertisement expense paid to The Coca-Cola Company ⁽¹⁾	874	1,117	780
Purchase of juices from Jugos del Valle, S.A.P.I. de C.V. ⁽¹⁾⁽²⁾	1,564	1,332	1,044
Interest expense and fees paid to BBVA Bancomer, S.A. de C.V.	128	108	260
Purchase of sugar from Beta San Miguel ⁽¹⁾	1,398	1,307	713
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. ⁽¹⁾	701	684	783
Purchase of canned products from IEQSA ⁽¹⁾	262	196	208
Purchases from affiliated companies of Grupo Tampico ⁽¹⁾	175	—	—
Advertising paid to Grupo Televisa, S.A.B.	86	37	13
Interest expense paid to Grupo Financiero Banamex, S.A. de C.V.	28	56	61
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B.	59	69	78
Donations to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C.	81	63	72
Purchase of plastic bottles from Embotelladora del Atlántico, S.A. (formerly Complejo Industrial Pet, S.A.) ⁽¹⁾	61	52	54
Purchase of juice and milk powder from Grupo Estrella Azul ⁽¹⁾	60	—	—
Donations to Difusión y Fomento Cultural, A.C.	21	29	18
Interest expense paid to The Coca-Cola Company ⁽¹⁾	7	5	25
Other expenses with related parties	103	31	42

(1) These companies are related parties of our subsidiary Coca-Cola FEMSA.

(2) These companies are related parties of our subsidiary FEMSA Comercio.

The benefits and aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries were as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Short- and long-term benefits paid	Ps. 1,279	Ps. 1,307	Ps. 1,206
Severance indemnities	10	34	47
Postretirement benefits (labor cost)	117	83	23

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Note 14. Balances and Transactions in Foreign Currencies

According to NIF B-15, assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the recording, functional or reporting currency of each reporting unit. As of the end of and for the years ended December 31, 2011 and 2010, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos are as follows:

	2011			2010		
	U.S. dollars	Other Currencies	Total	U.S. dollars	Other Currencies	Total
Assets:						
Short-term	Ps. 13,733	Ps. 18	Ps. 13,751	Ps. 11,761	Ps. 480	Ps. 12,241
Long-term	1,049	—	1,049	321	—	321
Liabilities:						
Short-term	2,325	205	2,530	1,501	247	1,748
Long-term	7,199	445	7,644	6,962	—	6,962
Transactions						
Total revenues	Ps. 1,564	Ps. 2	Ps. 1,566	Ps. 1,111	Ps. —	Ps. 1,111
Expenses and investments:						
Purchases of raw materials	9,424	—	9,424	5,648	—	5,648
Interest expense	319	5	324	294	—	294
Consulting fees	11	—	11	452	24	476
Assets acquisitions	306	—	306	311	—	311
Other	1,075	90	1,165	804	3	807

As of April 27, 2012, approval date of these consolidated financial statements, the exchange rate published by “Banco de México” was Ps. 13.1667 Mexican pesos per one U.S. Dollar, and the foreign currency position was similar to that as of December 31, 2011.

Note 15. Employee Benefits

The Company has various labor liabilities for employee benefits in connection with pension, seniority, post retirement medical and severance benefits. Benefits vary depending upon country.

a) Assumptions:

The Company annually evaluates the reasonableness of the assumptions used in its labor liabilities for employee benefits computations. Actuarial calculations for pension and retirement plans, seniority premiums, postretirement medical services and severance indemnity liabilities, as well as the cost for the period, were determined using the following long-term assumptions:

	Nominal Rates ⁽¹⁾			Real Rates ⁽²⁾		
	2011	2010	2009	2011	2010	2009
Annual discount rate	7.6%	7.6%	8.2%	4.0%	4.0%	4.5%
Salary increase	4.8%	4.8%	5.1%	1.2%	1.2%	1.5%
Return on assets	9.0%	8.2%	8.2%	5.0%	3.6%	4.5%

Measurement date: December 2011

(1) For non-inflationary economies.

(2) For inflationary economies.

The basis for the determination of the long-term rate of return is supported by a historical analysis of average returns in real terms for the last 30 years of the Certificados de Tesorería del Gobierno Federal (Mexican Federal Government Treasury Certificates) for Mexican investments, treasury bonds of each country for other investments and the expected rates of long-term returns of the actual investments of the Company.

The annual growth rate for health care expenses is 5.1% in nominal terms, consistent with the historical average health care expense rate for the past 30 years. Such rate is expected to remain consistent for the foreseeable future.

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Based on these assumptions, the expected benefits to be paid in the following years are as follows:

	<u>Pension and Retirement Plans</u>	<u>Seniority Premiums</u>	<u>Postretirement Medical Services</u>	<u>Severance Indemnities</u>
2012	Ps. 409	Ps. 16	Ps. 6	Ps. 148
2013	238	15	6	125
2014	234	16	6	119
2015	206	17	6	115
2016	203	19	6	110
2017 to 2021	<u>1,078</u>	<u>124</u>	<u>25</u>	<u>512</u>

b) Balances of the Liabilities for Employee Benefits:

	<u>2011</u>	<u>2010</u>
Pension and Retirement Plans:		
Vested benefit obligation	Ps. 1,639	Ps. 1,461
Non-vested benefit obligation	<u>1,184</u>	<u>1,080</u>
Accumulated benefit obligation	2,823	2,541
Excess of projected benefit obligation over accumulated benefit obligation	<u>1,103</u>	<u>757</u>
Defined benefit obligation	3,926	3,298
Pension plan funds at fair value	<u>(1,927)</u>	<u>(1,501)</u>
Unfunded defined benefit obligation	1,999	1,797
Labor cost of past services ⁽¹⁾	(319)	(349)
Unrecognized actuarial loss, net	<u>(446)</u>	<u>(272)</u>
Total	<u>Ps. 1,234</u>	<u>Ps. 1,176</u>
Seniority Premiums:		
Vested benefit obligation	Ps. 13	Ps. 12
Non-vested benefit obligation	<u>126</u>	<u>93</u>
Accumulated benefit obligation	139	105
Excess of projected benefit obligation over accumulated benefit obligation	<u>102</u>	<u>49</u>
Defined benefit obligation	241	154
Seniority premium plan funds at fair value	<u>(19)</u>	<u>—</u>
Unfunded defined benefit obligation	222	154
Unrecognized actuarial gain, net	<u>22</u>	<u>17</u>
Total	<u>Ps. 244</u>	<u>Ps. 171</u>
Postretirement Medical Services:		
Vested benefit obligation	Ps. 134	Ps. 119
Non-vested benefit obligation	<u>102</u>	<u>112</u>
Defined benefit obligation	236	231
Medical services funds at fair value	<u>(45)</u>	<u>(43)</u>
Unfunded defined benefit obligation	191	188
Labor cost of past services ⁽¹⁾	(2)	(4)
Unrecognized actuarial loss, net	<u>(95)</u>	<u>(102)</u>
Total	<u>Ps. 94</u>	<u>Ps. 82</u>
Severance Indemnities:		
Accumulated benefit obligation	Ps. 614	Ps. 462
Excess of projected benefit obligation over accumulated benefit obligation	<u>122</u>	<u>91</u>
Defined benefit obligation	736	553
Labor cost of past services ⁽¹⁾	<u>(50)</u>	<u>(99)</u>
Total	<u>Ps. 686</u>	<u>Ps. 454</u>
Total labor liabilities for employee benefits	<u>Ps. 2,258</u>	<u>Ps. 1,883</u>

(1) Unrecognized net transition obligation and unrecognized prior service costs.

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The accumulated actuarial gains and losses were generated by the differences in the assumptions used for the actuarial calculations at the beginning of the year versus the actual behavior of those variables at the end of the year.

c) Trust Assets:

Trust assets consist of fixed and variable return financial instruments recorded at market value. The trust assets are invested as follows:

	<u>2011</u>	<u>2010</u>
Fixed return:		
Publicly traded securities	9%	10%
Bank instruments	3%	8%
Federal government instruments	69%	60%
Variable return:		
Publicly traded shares	19%	22%
	<u>100%</u>	<u>100%</u>

The Company has a policy of maintaining at least 30% of the trust assets in Mexican Federal Government instruments. Objective portfolio guidelines have been established for the remaining percentage, and investment decisions are made to comply with those guidelines to the extent that market conditions and available funds allow.

The amounts and types of securities of the Company and related parties included in plan assets are as follows:

	<u>2011</u>	<u>2010</u>
Debt:		
CEMEX, S.A.B. de C.V.	Ps. —	Ps.20
BBVA Bancomer, S.A. de C.V.	30	11
Coca-Cola FEMSA	2	2
Grupo Industrial Bimbo, S.A. de C.V.	2	2
Grupo Televisa, S.A.B.	3	—
Grupo Financiero Banorte, S.A.B. de C.V.	7	—
Equity:		
FEMSA	58	97
Coca-Cola FEMSA	5	—
Grupo Televisa, S.A.B.	—	8

The Company does not expect to make material contributions to plan assets during the following fiscal year.

d) Cost for the Year:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Pension and Retirement Plans:			
Labor cost	Ps. 164	Ps. 136	Ps. 136
Interest cost	262	219	216
Expected return on trust assets	(149)	(94)	(80)
Labor cost of past services ⁽¹⁾	31	30	29
Amortization of net actuarial loss	23	4	17
Curtailment	(18)	—	—
	<u>313</u>	<u>295</u>	<u>318</u>
Seniority Premiums:			
Labor cost	30	27	25
Interest cost	13	13	12
Labor cost of past services ⁽¹⁾	1	1	—
Amortization of net actuarial loss	7	—	—
	<u>51</u>	<u>41</u>	<u>37</u>

Postretirement Medical Services:			
Labor cost	9	8	7
Interest cost	17	16	15
Expected return on trust assets	(4)	(3)	(3)
Labor cost of past services ⁽¹⁾	2	2	2
Amortization of net actuarial loss	5	4	5
Curtailement	(3)	—	—
	<u>26</u>	<u>27</u>	<u>26</u>
Severance Indemnities:			
Labor cost	78	65	61
Interest cost	35	31	32
Labor cost of past services ⁽¹⁾	50	48	50
Amortization of net actuarial loss	81	93	45
	<u>244</u>	<u>237</u>	<u>188</u>
	<u>Ps.634</u>	<u>Ps.600</u>	<u>Ps.569</u>

(1) Amortization of unrecognized net transition obligation and amortization of unrecognized prior service costs.

e) **Changes in the Balance of the Obligations for Employee Benefits:**

	2011	2010
Pension and Retirement Plans:		
Initial balance	Ps. 3,298	Ps. 2,612
Labor cost	164	136
Interest cost	262	219
Curtailement	6	129
Actuarial loss	88	358
Benefits paid	(142)	(156)
Acquisitions	250	—
Ending balance	<u>3,926</u>	<u>3,298</u>
Seniority Premiums:		
Initial balance	154	166
Labor cost	30	27
Interest cost	13	13
Curtailement	(1)	—
Actuarial loss (gain)	2	(33)
Benefits paid	(19)	(19)
Acquisitions	62	—
Ending balance	<u>241</u>	<u>154</u>
Postretirement Medical Services:		
Initial balance	231	191
Labor cost	9	8
Interest cost	17	16
Curtailement	(6)	8
Actuarial loss	—	21
Benefits paid	(15)	(13)
Ending balance	<u>236</u>	<u>231</u>

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Severance Indemnities:		
Initial balance	553	535
Labor cost	78	65
Interest cost	35	31
Curtailement	—	1
Actuarial loss	112	74
Benefits paid	(155)	(153)
Acquisitions	113	—
Ending balance	<u>Ps. 736</u>	<u>Ps. 553</u>

f) Changes in the Balance of the Trust Assets:

	2011	2010
Initial balance	<u>Ps. 1,544</u>	<u>Ps. 1,183</u>
Actual return on trust assets	59	114
Life annuities ⁽¹⁾	152	264
Benefits paid	(12)	(17)
Acquisitions	248	—
Ending balance	<u>Ps. 1,991</u>	<u>Ps. 1,544</u>

(1) Life annuities acquired from *Allianz Mexico*.

g) Variation in Health Care Assumptions:

The following table presents the impact to the postretirement medical service obligations and the expenses recorded in the income statement with a variation of 1% in the assumed health care cost trend rates.

	Impact of Changes:	
	+1%	-1%
Postretirement medical services obligation	<u>Ps. 38</u>	<u>Ps. (24)</u>
Cost for the year	5	(2)

Note 16. Bonus Program

The bonus program for executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives and special projects.

The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added (“EVA”) methodology. The objective established for the executives at each entity is based on a combination of the EVA per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

In addition, the Company provides a defined contribution plan of share compensation to certain key executives, consisting of an annual cash bonus to purchase FEMSA shares or options, based on the executive’s responsibility in the organization, their business’ EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 20% per year. The 50% of Coca-Cola FEMSA’s annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. As of December 31, 2011, 2010 and 2009, no options have been granted to employees under the plan.

As of April 30, 2010, the trust linked to FEMSA Cerveza executives was liquidated; as a result 230,642 of FEMSA UBD shares and 27,339 of KOF L shares granted to FEMSA Cerveza executives were vested as part of the share exchange of FEMSA Cerveza.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded in income from operations and are paid in cash the following year. During the years ended December 31, 2011, 2010 and 2009, the bonus expense recorded amounted to Ps. 1,241 Ps. 1,016 and Ps. 1,210, respectively.

All shares held in trust are considered outstanding for earnings per share purposes and dividends on shares held by the trusts are charged to retained earnings.

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As of December 31, 2011 and 2010, the number of shares held by the trust is as follows:

	Number of Shares			
	FEMSA UBD		KOF L	
	2011	2010	2011	2010
Beginning balance	10,197,507	10,514,672	3,049,376	3,035,008
Shares granted to executives	2,438,590	3,700,050	651,870	989,500
Shares released from trust to executives upon vesting	(3,236,014)	(3,863,904)	(986,694)	(975,132)
Forfeitures	—	(153,311)	—	—
Ending balance	9,400,083	10,197,507	2,714,552	3,049,376

The fair value of the shares held by the trust as of the end of December 31, 2011 and 2010 was Ps. 1,297 and Ps. 857, respectively, based on quoted market prices of those dates.

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Note 17. Bank Loans and Notes Payable

(in millions of Mexican pesos)	At December 31, ⁽¹⁾						2017 and Thereafter	2011	Fair Value	2010 ⁽¹⁾
	2012	2013	2014	2015	2016	2016				
Short-term debt:										
Fixed rate debt:										
Argentine pesos										
Bank loans	Ps. 325	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. —	Ps. 325	Ps. 317	Ps. 506
Interest rate	14.9%							14.9%		15.3%
Mexican pesos										
Capital leases	18	—	—	—	—	—	—	18	18	—
Interest rate	6.9%							6.9%		0.0%
Variable rate debt:										
Colombian pesos										
Bank loans	295	—	—	—	—	—	—	295	295	1,072
Interest rate	6.8%							6.8%		4.4%
Total short-term debt	<u>Ps. 638</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. —</u>	<u>Ps. 638</u>	<u>Ps. 630</u>	<u>Ps. 1,578</u>
Long-term debt:										
Fixed rate debt:										
Argentine pesos										
Bank loans	514	81	—	—	—	—	—	595	570	684
Interest rate	16.4%	15.7%						16.3%		16.5%
Brazilian reais										
Bank loans	5	10	10	10	10	36	81	87	81	81
Interest rate	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%		4.5%
Capital leases	4	5	5	4	—	—	18			21
Interest rate	4.5%	4.5%	4.5%	4.5%			4.5%			4.5%
U.S. dollars										
Yankee Bond	—	—	—	—	—	6,990	6,990	7,737		6,179
Interest rate						4.6%	4.6%			4.6%
Capital leases	—	—	—	—	—	—	—	—		4
Interest rate										3.8%
Mexican pesos										
Units of investment (UDIs)	—	—	—	—	—	3,337	3,337	3,337		3,193
Interest rate						4.2%	4.2%			4.2%
Domestic senior notes	—	—	—	—	—	2,500	2,500	2,631		—
Interest rate						8.3%	8.3%			0.0%
Subtotal	<u>Ps. 523</u>	<u>Ps. 96</u>	<u>Ps. 15</u>	<u>Ps. 14</u>	<u>Ps. 10</u>	<u>Ps. 12,863</u>	<u>Ps. 13,521</u>	<u>Ps. 14,362</u>	<u>Ps. 10,162</u>	
Variable rate debt:										
U.S. dollars										
Bank loans	42	209	—	—	—	—	251	251		222
Interest rate	0.7%	0.7%					0.7%			0.6%
Mexican pesos										
Domestic senior notes	3,000	3,500	—	—	2,500	—	9,000	8,981		8,000
Interest rate	4.7%	4.8%			4.9%		4.8%			4.8%
Bank loans	67	266	1,392	2,825	—	—	4,550	4,456		4,550
Interest rate	5.0%	5.0%	5.0%	5.0%			5.0%			5.1%
Argentine pesos										
Bank loans	130	—	—	—	—	—	130	116		—
Interest rate	27.3%						27.3%			
Brazilian reais										
Capital leases	33	39	43	48	30	—	193	193		—
Interest rate	11.0%	11.0%	11.0%	11.0%	11.0%		11.0%			
Colombian pesos										
Bank loans	935	—	—	—	—	—	935	929		994
Interest rate	6.1%						6.1%			4.7%
Capital leases	205	181	—	—	—	—	386	384		—
Interest rate	7.1%	6.6%					6.9%			
Subtotal	<u>4,412</u>	<u>4,195</u>	<u>1,435</u>	<u>2,873</u>	<u>2,530</u>	<u>—</u>	<u>15,445</u>	<u>15,310</u>	<u>13,766</u>	
Total long-term debt	<u>Ps. 4,935</u>	<u>Ps. 4,291</u>	<u>Ps. 1,450</u>	<u>Ps. 2,887</u>	<u>Ps. 2,540</u>	<u>Ps. 12,863</u>	<u>Ps. 28,966</u>	<u>Ps. 29,672</u>	<u>Ps. 23,928</u>	
							<u>(4,935)</u>			<u>(1,725)</u>
							<u>Ps. 24,031</u>			<u>Ps. 22,203</u>

(1) All interest rates are weighted average annual rates.

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Derivative Financial Instruments ⁽¹⁾	2012	2013	2014	2015	2016	2017 and Thereafter	2011	2010
	(notional amounts in millions of Mexican pesos)							
Cross currency swaps:								
Units of investments to Mexican pesos and variable rate:	—	—	—	—	—	2,500	2,500	2,500
Interest pay rate						4.6%	4.6%	4.7%
Interest receive rate						4.2%	4.2%	4.2%
Interest rate swap: ⁽²⁾								
Mexican pesos								
Variable to fixed rate:	1,600	2,500	575	1,963			6,638	5,260
Interest pay rate	8.1%	8.1%	8.4%	8.6%			8.3%	8.1%
Interest receive rate	4.7%	4.7%	5.0%	5.0%			4.9%	4.9%

(1) All interest rates are weighted average annual rates.

(2) Does not include forwards starting swaps with a notional amount of Ps. 1,312 and a fair value loss of Ps. 43. These contracts will become effective in 2012 and mature in 2013.

On December 4, 2007, the Company obtained the approval from the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or “CNBV”) for the issuance of long-term domestic senior notes (“Certificados Bursátiles”) in the amount of Ps. 10,000 (nominal amount) or its equivalent in investment units. As of December 31, 2011, the Company has issued the following domestic senior notes: i) on December 7, 2007, the Company issued domestic senior notes composed of Ps. 3,500 (nominal amount) with a maturity date on November 29, 2013 and a floating interest rate; ii) on December 7, 2007, the Company issued domestic senior notes in the amount of 637,587,000 investment units (Ps. 2,500 nominal amount), with a maturity date on November 24, 2017 and a fixed interest rate, iii) on May 26, 2008, the Company issued domestic senior notes composed of Ps. 1,500 (nominal amount), with a maturity date on May 23, 2011 and a floating interest rate, which was paid at maturity.

Additionally, Coca-Cola FEMSA has the following domestic senior notes: a) issued in the Mexican stock exchange: i) Ps. 3,000 (nominal amount) with a maturity date in 2012 and a variable interest rate, ii) Ps. 2,500 (nominal amount) with a maturity date in 2016 and a variable interest rate and iii) Ps. 2,500 (nominal amount) with a maturity date in 2021 and fixed interest rate of 8.3%; b) issued in the NYSE a Yankee Bond of \$500 with interest at a fixed rate of 4.6% and maturity date on February 15, 2020.

The Company has financing from different institutions under agreements that stipulate different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

Note 18. Other Expenses, Net

	2011	2010	2009
Employee profit sharing (see Note 4 R)	Ps. 1,237	Ps. 785	Ps. 1,020
Gain on sale of shares (see Note 5 B)	(1)	(1,554)	(35)
Brazil tax amnesty (see Note 23 A)	—	(179)	(311)
Vacation provision	—	—	333
Disposal of long-lived assets ⁽¹⁾	703	9	129
Severance payments associated with an ongoing benefit	226	583	127
(Gain) loss on sale of long-lived assets	(9)	215	177
Donations	200	195	116
Contingencies	146	104	152
Security taxes from Colombia	197	29	25
Other	218	95	144
Total	Ps. 2,917	Ps. 282	Ps. 1,877

(1) Charges related to fixed assets retirement from ordinary operations and other long-lived assets.

Note 19. Fair Value of Financial Instruments

The Company uses a three level fair value hierarchy to prioritize the inputs used to measure fair value. The three levels of inputs are described as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3:** are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The Company measures the fair value of its financial assets and liabilities classified as level 2, applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes financial assets and liabilities measured at fair value, as of December 31, 2011 and 2010:

	2011		2010	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents	Ps. 17,908		Ps. 19,770	
Available-for-sale investments	330		66	
Pension plan trust assets	1,991		1,544	
Derivative financial instruments (asset)		Ps. 1,361		Ps. 732
Derivative financial instruments (liability)		634		694

The Company does not use inputs classified as level 3 for fair value measurement.

a) Total Debt:

The fair value of long-term debt is determined based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt of similar amounts and maturities. The fair value of notes is based on quoted market prices.

	2011	2010
Carrying value	Ps. 29,604	Ps. 25,506
Fair value	30,302	25,451

b) Interest Rate Swaps:

The Company uses interest rate swaps to offset the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. These instruments are recognized in the consolidated balance sheet at their estimated fair value and have been designated as a cash flows hedge. The estimated fair value is based on formal technical models. Changes in fair value were recorded in cumulative other comprehensive income until such time as the hedged amount is recorded in earnings.

At December 31, 2011, the Company has the following outstanding interest rate swap agreements:

<u>Maturity Date</u>	<u>Notional Amount</u>	<u>Fair Value Asset (Liability)</u>
2012	Ps. 1,600	Ps. (12)
2013	3,812	(181)
2014	575	(43)
2015	1,963	(184)

A portion of certain interest rate swaps do not meet the hedging criteria for accounting purposes; consequently, changes in the estimated fair value of the ineffective portion were recorded in the consolidated results as part of the comprehensive financing result.

The net effect of expired contracts that met hedging criteria is recognized as interest expense as part of the comprehensive financing result.

c) Forward Agreements to Purchase Foreign Currency:

The Company enters into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies. These instruments are recognized in the consolidated balance sheet at their estimated fair value which is determined based on prevailing market exchange rates to end the contracts at the end of the period. For contracts that meet hedging criteria, the changes in the fair value are recorded in cumulative other comprehensive income prior to expiration. Net gain/loss on expired contracts is recognized as part of foreign exchange.

Net changes in the fair value of forward agreements that do not meet hedging criteria for accounting purposes are recorded in the consolidated results as part of the comprehensive financing result. The net effect of expired contracts that do not meet hedging criteria for accounting purposes is recognized as a market value gain (loss) on ineffective portion of derivative financial instruments.

d) Options to Purchase Foreign Currency:

The Company has entered into a collar strategy to reduce its exposure to the risk of exchange rate fluctuations. A collar is a strategy that limits the exposure to the risk of exchange rate fluctuations in a similar way as a forward agreement.

These instruments are recognized in the consolidated balance sheet at their estimated fair value which is determined based on prevailing market exchange rates to terminate the contracts at the end of the period. Changes in the fair value of these options, corresponding to the intrinsic value are initially recorded as part of cumulative other comprehensive income. Changes in the fair value, corresponding to the intrinsic value are recorded in the income statement under the caption “market value gain/loss on the ineffective portion of derivative financial instruments,” as part of the consolidated results. Net gain/loss on expired contracts is recognized as part of cost of goods sold.

e) Cross Currency Swaps:

The Company enters into cross currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars and other foreign currencies. These instruments are recognized in the consolidated balance sheet at their estimated fair value which is estimated based on formal technical models. These contracts are designated as fair value hedges. The fair value changes related to those cross currency swaps are recorded as part of the ineffective portion of derivative financial instruments, net of changes related to the long-term liability.

Net changes in the fair value of current and expired cross currency swaps contracts that did not meet the hedging criteria for accounting purposes are recorded as a gain/loss in the market value on the ineffective portion of derivative financial instruments in the consolidated results as part of the comprehensive financing result.

f) Commodity Price Contracts:

The Company enters into commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to the end of the contracts at the date of closing of the period. Changes in the fair value are recorded in cumulative other comprehensive income.

The fair value of expired commodity price contracts were recorded in cost of sales where the hedged item was recorded.

g) Embedded Derivative Financial Instruments:

The Company has determined that its leasing contracts denominated in U.S. dollars host embedded derivative financial instruments. The fair value is estimated based on formal technical models. Changes in the fair value were recorded in current earnings in the comprehensive financing result as market value on derivative financial instruments.

h) Notional Amounts and Fair Value of Derivative Instruments that Met Hedging Criteria:

	2011 Notional Amounts	Fair Value	
		2011	2010
CASH FLOWS HEDGE:			
Assets (Liabilities):			
Forward agreements	Ps. 2,933	Ps. 183 ⁽¹⁾	Ps. (16)
Options to purchase foreign currency	1,901	300 ⁽¹⁾	—
Interest rate swaps	7,950	(420) ⁽³⁾	(418)
Commodity price contracts	754	(19) ⁽²⁾	445
FAIR VALUE HEDGE:			
Assets (Liabilities):			
Cross currency swaps	Ps. 2,500	Ps. 860 ⁽⁴⁾	Ps. 717

(1) Expires in 2012.

(2) Maturity dates in 2012 and 2013.

(3) Maturity dates in 2012 and 2015.

(4) Expires in 2017.

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i) Net Effects of Expired Contracts that Met Hedging Criteria:

<u>Types of Derivatives</u>	<u>Impact in Income Statement Gain (Loss)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest rate swaps	Interest expense	Ps.(120)	Ps.(181)	Ps. (67)
Forward agreements	Foreign exchange	—	27	—
Cross currency swaps	Foreign exchange/ interest expense	8	2	(32)
Commodity price contract	Cost of sales	257	393	247
Forward agreements	Cost of sales	21	—	—

j) Net Effect of Changes in Fair Value of Derivative Financial Instruments that Did Not Meet the Hedging Criteria for Accounting Purposes:

<u>Types of Derivatives</u>	<u>Impact in Income Statement</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest rate swaps		Ps. —	Ps. (7)	Ps. —
Forwards for purchase of foreign currency	Market value gain (loss) on ineffective	—	—	(63)
Cross currency swaps	portion of derivative financial instruments	(146)	205	168

k) Net Effect of Changes in Fair Value of Other Derivative Financial Instruments that Did Not Meet the Hedging Criteria for Accounting Purposes:

<u>Types of Derivatives</u>	<u>Impact in Income Statement</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Embedded derivative financial instruments	Market value gain (loss) on ineffective	Ps. (50)	Ps.15	Ps. 19
Others	portion of derivative financial instruments	37	(1)	—

Note 20. Non-controlling Interest in Consolidated Subsidiaries

An analysis of FEMSA's non-controlling interest in its consolidated subsidiaries for the years ended December 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Coca-Cola FEMSA	Ps.57,450⁽¹⁾	Ps.35,585
Other	84	80
	Ps.57,534	Ps.35,665

(1) Includes Ps. 7,828 and Ps. 9,017 for acquisitions through issuance of shares of Grupo Tampico and Grupo CIMSA, respectively (see Note 5 A).

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Note 21. Stockholders' Equity

The capital stock of FEMSA is comprised of 2,161,177,770 BD units and 1,417,048,500 B units.

As of December 31, 2011 and 2010, the capital stock of FEMSA was comprised of 17,891,131,350 common shares, without par value and with no foreign ownership restrictions. Fixed capital stock amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock amount.

The characteristics of the common shares are as follows:

- Series "B" shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;
- Series "L" shares, with limited voting rights, which may represent up to 25% of total capital stock; and
- Series "D" shares, with limited voting rights, which individually or jointly with series "L" shares may represent up to 49% of total capital stock.

The Series "D" shares are comprised as follows:

- Subseries "D-L" shares may represent up to 25% of the series "D" shares;
- Subseries "D-B" shares may comprise the remainder of outstanding series "D" shares; and
- The non-cumulative premium dividend to be paid to series "D" stockholders will be 125% of any dividend paid to series "B" stockholders.

The Series "B" and "D" shares are linked together in related units as follows:

- "B units" each of which represents five series "B" shares and which are traded on the BMV;
- "BD units" each of which represents one series "B" share, two subseries "D-B" shares and two subseries "D-L" shares, and which are traded both on the BMV and the NYSE;

As of December 31, 2011 and 2010, FEMSA's capital stock is comprised as follows:

Units	"B" Units	"BD" Units	Total
Units	1,417,048,500	2,161,177,770	3,578,226,270
Shares:			
Series "B"	7,085,242,500	2,161,177,770	9,246,420,270
Series "D"	—	8,644,711,080	8,644,711,080
Subseries "D-B"	—	4,322,355,540	4,322,355,540
Subseries "D-L"	—	4,322,355,540	4,322,355,540
Total shares	<u>7,085,242,500</u>	<u>10,805,888,850</u>	<u>17,891,131,350</u>

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to stockholders during the existence of the Company, except as a stock dividend. As of December 31, 2011 and 2010, this reserve in FEMSA amounted to Ps. 596 (nominal value).

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except for restated stockholder contributions and distributions made from consolidated taxable income, denominated "Cuenta de Utilidad Fiscal Neta" ("CUFIN").

Dividends paid in excess of CUFIN are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid, and in the following two years against the income tax and estimated tax payments. As of December 31, 2011, FEMSA's balances of CUFIN amounted to Ps. 62,925.

At the ordinary stockholders' meeting of FEMSA held on March 25, 2011, stockholders approved dividends of Ps. 0.22940 Mexican pesos (nominal value) per series "B" share and Ps. 0.28675 Mexican pesos (nominal value) per series "D" share that were paid in May and November, 2011. Additionally, the stockholders approved a reserve for share repurchase of a maximum of Ps. 3,000. As of December 31, 2011, the Company has not repurchased shares.

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At an ordinary stockholders' meeting of Coca-Cola FEMSA held on March 23, 2011, the stockholders approved a dividend of Ps. 4,358 that was paid on April 27, 2011. The corresponding payment to the non-controlling interest was Ps. 2,017.

As of December 31, 2011, 2010 and 2009 the dividends declared and paid by the Company and Coca-Cola FEMSA were as follows:

	2011	2010	2009
FEMSA	Ps. 4,600	Ps. 2,600	Ps. 1,620
Coca-Cola FEMSA (100% of dividend)	4,358	2,604	1,344

Note 22. Net Controlling Interest Income per Share

This represents the net controlling interest income corresponding to each share of the Company's capital stock, computed on the basis of the weighted average number of shares outstanding during the period. Additionally, the net income distribution is presented according to the dividend rights of each share series.

The following presents the computed weighted average number of shares and the distribution of income per share series as of December 31, 2011, 2010 and 2009:

	Millions of Shares			
	Series "B"		Series "D"	
	Number	Weighted Average	Number	Weighted Average
Shares outstanding as of December 31, 2011, 2010 and 2009	9,246.42	9,246.42	8,644.71	8,644.71
Dividend rights	1.00		1.25	
Allocation of earnings	46.11%		53.89%	

Note 23. Taxes

a) Income Tax:

Income tax is computed on taxable income, which differs from net income for accounting purposes principally due to the treatment of the inflationary effects, the cost of labor liabilities for employee benefits, depreciation and other accounting provisions. A tax loss may be carried forward and applied against future taxable income.

	Domestic			Foreign		
	2011	2010	2009	2011	2010	2009
Income before income tax from continuing operations	Ps. 12,275	Ps. 11,276	Ps. 9,209	Ps. 16,096	Ps. 12,356	Ps. 7,549
Income tax:						
Current income tax	3,744	2,643	2,839	3,817	2,211	2,238
Deferred income tax	(173)	264	(401)	299	553	283

Domestic income before income tax from continuing operations is presented net of dividends received from foreign entities. The income tax paid in foreign countries is compensated with the consolidated income tax paid in Mexico for the period.

	Domestic			Foreign		
	2011	2010	2009	2011	2010	2009
Income before income tax from discontinued operations	Ps. —	Ps. 306	Ps. 2,688	Ps. —	Ps. 442	Ps. (456)
Income tax:						
Current income tax	—	210	1,568	—	92	(45)
Deferred income tax	—	(260)	(508)	—	—	(2,066) ⁽¹⁾

(1) Application of tax loss carryforwards due to Brazil amnesty adoption.

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The statutory income tax rates applicable in the countries where the Company operates, the years in which tax loss carryforwards may be applied and the open periods that remain subject to examination as of December 31, 2011 are as follows:

	<u>Statutory Tax Rate</u>	<u>Expiration (Years)</u>	<u>Open Period (Years)</u>
Mexico	30%	10	5
Guatemala	31%	N/A	4
Nicaragua	30%	3	4
Costa Rica	30%	3	4
Panama	25%	5	3
Colombia	33%	Indefinite	2-5
Venezuela	34%	3	4
Brazil	34%	Indefinite	6
Argentina	35%	5	5

The statutory income tax rate in Mexico was 30% for 2011 and 2010, and 28% for 2009.

In Panama, the statutory income tax rate for 2011, 2010 and 2009 was 25%, 27.5% and 30%, respectively.

On January 1, 2010, the Mexican Tax Reform was effective. The most important changes related to Mexican Tax Reform 2010 are described as follows: the value added tax rate (IVA) increases from 15% to 16%, an increase in special tax on productions and services from 25% to 26.5%; and the statutory income tax rate changes from 28% in 2009 to 30% for 2010, 2011 and 2012, and then in 2013 and 2014 will decrease to 29% and 28%, respectively. Additionally, the Mexican tax reform requires that income tax payments related to consolidation tax benefits obtained since 1999, have to be paid during the next five years beginning on the sixth year when tax benefits were used (see Note 23 C).

In Colombia, tax losses may be carried forward for an indefinite period and they are limited to 25% of the taxable income of each year.

In Brazil, tax losses may be carried forward for an indefinite period but cannot be restated and are limited to 30% of the taxable income of each year.

During 2009 and 2010, Brazil adopted new laws providing for certain tax amnesties. The tax amnesty programs offers Brazilian legal entities and individuals an opportunity to pay off their income tax and indirect tax debts under less stringent conditions than would normally apply. The amnesty programs also include a favorable option under which taxpayers may utilize income tax loss carry-forwards (“NOLs”) when settling certain outstanding income tax and indirect tax debts. The Brazilian subsidiary of Coca-Cola FEMSA decided to participate in the amnesty programs allowing it to settle certain previously accrued indirect tax contingencies. During the years ended, December 31, 2010 and 2009 the Company de-recognized indirect tax contingency accruals of Ps. 333 and Ps. 433 respectively (see Note 24 C), making payments of Ps. 118 and Ps. 243, recording a credit to other expenses of Ps. 179 and Ps. 311 (see Note 18), reversing previously recorded Brazil valuation allowances against NOL’s in 2009, and recording certain taxes recoverable. During 2011, there were no tax amnesty programs applied by the Company.

Tax on Assets:

The operations in Guatemala, Nicaragua, Colombia and Argentina are subject to a minimum tax, which is based primary on a percentage of assets. Any payments are recoverable in future years, under certain conditions. In Mexico, the Company has recoverable tax on assets generated in years earlier than 2008, which is recognized as recoverable taxes and can be recovered through tax returns (see Note 23 E).

b) Business Flat Tax (“IETU”):

Effective in 2008, the IETU came into effect in Mexico and replaced the Tax on Assets. IETU functions are similar to an alternative minimum corporate income tax, except that amounts paid cannot be creditable against future income tax payments. The payable tax will be the higher between the IETU or the income tax liability computed under the Mexican income tax law. The IETU applies to corporations, including permanent establishments of foreign entities in Mexico, at a rate of 17.5% beginning in 2010. The rate for 2009 was 17.0%. The IETU is calculated under a cash-flows basis, whereby the tax base is determined by reducing cash proceeds with certain deductions and credits. In the case of income derived from export sales, where cash on the receivable has not been collected within 12 months, income is deemed received at the end of this 12-month period. In addition, as opposed to Mexican income tax which allows for fiscal consolidation, companies that incur IETU are required to file their returns on an individual basis.

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The Company has paid corporate income tax since IETU came into effect, and based on its financial projections for purposes of its Mexican tax returns, the Company expects to continue to pay corporate income tax in the future and does not expect to pay IETU. As such, the enactment of IETU has not affected the Company's consolidated financial position or results of operations.

c) Deferred Income Tax:

Effective January 2008, in accordance with NIF B-10, "Effects of Inflation," in Mexico the application of inflationary accounting is suspended. However, for taxes purposes, the balance of non monetary assets is restated through the application of National Consumer Price Index (NCPI) of each country. For this reason, the difference between accounting and taxable values will increase, generating a deferred tax.

The impact to deferred income tax generated by liabilities (assets) temporary differences are as follows:

<u>Deferred Income Taxes</u>	<u>2011</u>	<u>2010</u>
Allowance for doubtful accounts	Ps. (107)	Ps. (71)
Inventories	(52)	37
Prepaid expenses	46	75
Property, plant and equipment	1,676	1,418
Investments in shares	1,830	161
Other assets	(701)	(458)
Amortized intangible assets	295	197
Unamortized intangible assets	2,409	1,769
Labor liabilities for employee benefits	(552)	(448)
Derivative financial instruments	23	8
Loss contingencies	(721)	(703)
Temporary non-deductible provision	(935)	(999)
Employee profit sharing payable	(200)	(125)
Tax loss carryforwards	(633)	(988)
Deferred tax from exchange of shares of FEMSA Cerveza (see Note 5 B)	10,099	10,099
Other reserves	973	249
Deferred income taxes, net	<u>13,450</u>	<u>10,221</u>
Deferred income taxes asset	461	346
Deferred income taxes liability	<u>Ps. 13,911</u>	<u>Ps. 10,567</u>

The changes in the balance of the net deferred income tax liability are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Initial balance	Ps. 10,221	Ps. (660)	Ps. 670
Deferred tax provision for the year	225	875	(31)
Change in the statutory rate	(99)	(58)	(87)
Deferred tax from the exchange of shares of FEMSA (see Note 5 B)	—	10,099	—
Usage of tax losses related to exchange of FEMSA Cerveza (see Note 5 B)	—	280	—
Effect of tax loss carryforwards ⁽¹⁾	—	—	(1,874)
Acquisition of subsidiaries	186	—	—
Disposal of subsidiaries	—	(34)	—
Effects in stockholders' equity:			
Derivative financial instruments	75	75	80
Cumulative translation adjustment	2,779	(352)	609
Retained earnings	23	(38)	—
Deferred tax cancellation due to change in accounting principle	—	—	(71)
Restatement effect of beginning balances	40	34	44
Ending balance	<u>Ps. 13,450</u>	<u>Ps. 10,221</u>	<u>Ps. (660)</u>

(1) Effect due to 2010 Mexican tax reform, which deferred taxes were reclassified to other current liabilities and other liabilities according to its maturity.

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d) Provision for the Year:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current income taxes	Ps. 7,561	Ps. 4,854	Ps. 5,077
Deferred income tax	225	875	(31)
Change in the statutory rate	(99)	(58)	(87)
Income taxes	<u>Ps. 7,687</u>	<u>Ps. 5,671</u>	<u>Ps. 4,959</u>

e) Tax Loss Carryforwards and Recoverable Tax on Assets:

The subsidiaries in Mexico and Brazil have tax loss carryforwards and/or recoverable tax on assets. The taxes effect net of consolidation benefits and their years of expiration are as follows:

<u>Year</u>	<u>Tax Loss Carryforwards</u>	<u>Current Recoverable Tax on Assets</u>
2012	Ps. —	Ps. —
2013	—	12
2014	—	50
2015	—	4
2016	13	50
2017	—	63
2018	629	—
2019 and thereafter	1,147	—
No expiration (Brazil, see Note 23 A)	342	—
	<u>2,131</u>	<u>179</u>
Tax losses used in consolidation	<u>(1,443)</u>	<u>(135)</u>
	<u>Ps. 688</u>	<u>Ps. 44</u>

The changes in the balance of tax loss carryforwards and recoverable tax on assets, excluding discontinued operations are as follows:

	<u>2011</u>	<u>2010</u>
Initial balance	Ps. 803	Ps. 1,425
Additions	60	18
Usage of tax losses	(140)	(600)
Translation effect of beginning balances	9	(40)
Ending balance	<u>Ps. 732</u>	<u>Ps. 803</u>

As of December 31, 2011 and 2010, there is no valuation allowance recorded due to the uncertainty related to the realization of certain tax loss carryforwards and tax on assets.

f) Reconciliation of Mexican Statutory Income Tax Rate to Consolidated Effective Income Tax Rate:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Mexican statutory income tax rate	30.0%	30.0%	28.0%
Difference between book and tax inflationary effects	(3.6)%	(3.9)%	(1.8)%
Difference between statutory income tax rates	1.2%	1.2%	2.4%
Non-taxable income	(0.3)%	(2.4)%	(0.2)%
Others	(0.2)%	(0.9)%	1.2%
	<u>27.1%</u>	<u>24.0%</u>	<u>29.6%</u>

Note 24. Other Liabilities, Contingencies and Commitments

a) Other Current Liabilities:

	<u>2011</u>	<u>2010</u>
Derivative financial instruments	Ps. 69	Ps. 41
Sundry creditors	2,116	1,681
Current portion of other long-term liabilities	197	276
Others	15	37
Total	<u>Ps. 2,397</u>	<u>Ps. 2,035</u>

b) Contingencies and Other Liabilities:

	<u>2011</u>	<u>2010</u>
Contingencies ⁽¹⁾	Ps. 2,764	Ps. 2,712
Taxes payable	480	872
Derivative financial instruments	565	653
Current portion of other long-term liabilities	(197)	(276)
Others	1,148	1,435
Total	<u>Ps. 4,760</u>	<u>Ps. 5,396</u>

(1) As of December 31, 2010 included Ps. 560 of tax loss contingencies regarding indemnification accorded with Heineken over FEMSA Cerveza, prior tax contingencies, of which Ps. 113 were recognized as other current liabilities and Ps. 2 were cancelled as of December 31, 2011.

c) Contingencies Recorded in the Balance Sheet:

The Company has various loss contingencies, and reserves have been recorded in those cases where the Company believes an unfavorable resolution is probable. Most of these loss contingencies were recorded as a result of recent business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2011:

	<u>Total</u>
Indirect tax	Ps. 1,405
Labor	1,128
Legal	231
Total	<u>Ps. 2,764</u>

Changes in the Balance of Contingencies Recorded:

	<u>2011</u>	<u>2010</u>
Initial balance	Ps. 2,712	Ps. 2,467
Provision	356	716
Penalties and other charges	277	376
Cancellation and expiration	(359)	(205)
Payments ⁽¹⁾	(288)	(211)
Amnesty adoption	—	(333)
Translation of foreign currency of beginning balance	66	(98)
Ending balance	<u>Ps. 2,764</u>	<u>Ps. 2,712</u>

(1) Include Ps. 113 reclassified to other current liabilities.

d) Unsettled Lawsuits:

The Company has entered into legal proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount being claimed against the Company resulting from such proceedings as of December 31, 2011 is Ps. 6,781. Such contingencies were classified by legal counsel as less than

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probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such legal proceedings will not have a material effect on its consolidated financial position or result of operations.

In recent years in its Mexican, Costa Rican and Brazilian territories, Coca-Cola FEMSA has been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the soft drink industry where this subsidiary operates. The Company does not expect any significant liability to arise from these contingencies.

e) Collateralized Contingencies:

As is customary in Brazil, the Company has been requested by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 2,418 by pledging fixed assets and entering into available lines of credit which cover such contingencies.

f) Commitments:

As of December 31, 2011, the Company has contractual commitments for finance leases for machinery and transport equipment (see Note 17) and operating lease for the rental of production machinery and equipment, distribution equipment, computer equipment and land for FEMSA Comercio's operations.

The contractual maturities of the operating lease commitments by currency, expressed in Mexican pesos as of December 31, 2011, are as follows:

	Mexican pesos	U.S. dollars	Other
2012	Ps. 2,370	Ps. 113	Ps.203
2013	2,246	110	107
2014	2,134	100	80
2015	2,018	161	10
2016	1,896	712	8
2017 and thereafter	11,324	—	—
Total	Ps.21,988	Ps. 1,196	Ps.408

Rental expense charged to operations amounted to approximately Ps. 3,249 Ps. 2,602 and Ps. 2,255 for the years ended December 31, 2011, 2010 and 2009, respectively.

Note 25. Information by Segment

The Company restructured the segment information disclosed to its main authority of the entity to focus on income from operations and cash flow from operations before changes in working capital and provisions (see Note 4 Z). Therefore segment disclosures for prior periods have been reclassified for comparison purposes.

a) By Business Unit:

<u>2011</u>	Coca-Cola FEMSA	FEMSA Comercio	CB Equity	Other ⁽¹⁾	Consolidation Adjustments	Consolidated
Total revenues	Ps. 124,715	Ps. 74,112	Ps. —	Ps. 13,373	Ps. (9,156)	Ps. 203,044
Intercompany revenue	2,099	2	—	7,055	(9,156)	—
Income from operations	20,152	6,276	(7)	483	—	26,904
Other expenses, net						(2,917)
Interest expense	(1,736)	(1,026)	—	(535)	363	(2,934)
Interest income	601	12	7	742	(363)	999
Other net finance expenses ⁽²⁾						1,152
Equity method from associates	86	—	5,080	1	—	5,167
Income taxes	(5,599)	(556)	(267)	(1,265)	—	(7,687)
Consolidated net income before discontinued operations						20,684
Depreciation ⁽³⁾	4,163	1,175	—	160	—	5,498
Amortization and non-cash operating expenses	683	707	—	166	—	1,556

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Cash flows from operations before changes in working capital and provisions ⁽⁴⁾	24,998	8,158	(7)	809	—	33,958
Investment in associates and joint ventures	3,656	—	75,075	241	—	78,972
Long-term assets	119,534	16,593	75,075	9,641	(5,106)	215,737
Total assets	151,608	26,998	76,791	28,220	(8,913)	274,704
Disposals of long-lived assets	484	211	—	8	—	703
Capital expenditures, net ⁽⁵⁾	7,826	4,096	—	593	—	12,515
Net cash flows provided by (used in) operating activities	15,307	7,403	(93)	(373)	—	22,244
Net cash flows (used in) provided by investment activities	(14,140)	(4,083)	1,668	(1,535)	—	(18,090)
Net cash flows (used in) provided by financing activities	(2,206)	313	—	(5,029)	—	(6,922)

- (1) Includes other companies (see Note 1) and corporate.
- (2) Includes foreign exchange loss, net; gain on monetary position, net; and market value loss on ineffective portion of derivative financial instruments.
- (3) Includes bottle breakage.
- (4) Income from operations plus depreciation and amortization.
- (5) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other assets.

2010	Coca-Cola FEMSA	FEMSA Comercio	CB Equity	Other ⁽¹⁾	Consolidation Adjustments	Consolidated
Total revenues	Ps. 103,456	Ps. 62,259	Ps. —	Ps. 12,010	Ps. (8,023)	Ps. 169,702
Intercompany revenue	1,642	2	—	6,379	(8,023)	—
Income from operations	17,079	5,200	(3)	253	—	22,529
Other expenses, net						(282)
Interest expense	(1,748)	(917)	—	(951)	351	(3,265)
Interest income	285	25	2	1,143	(351)	1,104
Other net finance expenses ⁽²⁾						8
Equity method from associates	217	—	3,319	2	—	3,538
Income taxes	(4,260)	(499)	(208)	(704)	—	(5,671)
Consolidated net income before discontinued operations						17,961
Depreciation ⁽³⁾	3,333	990	—	204	—	4,527
Amortization and non-cash operating expenses	610	607	—	144	—	1,361
Cash flows from operations before changes in working capital and provisions ⁽⁴⁾	21,022	6,797	(3)	601	—	28,417
Investment in associates and joint ventures	2,108	—	66,478	207	—	68,793
Long-term assets	87,625	14,655	66,478	4,785	(1,425)	172,118
Total assets	114,061	23,677	67,010	27,705	(8,875)	223,578
Disposals of long-lived assets	7	—	—	2	—	9
Capital expenditures, net ⁽⁵⁾	7,478	3,324	—	369	—	11,171
Net cash flows provided by (used in) operating activities	14,350	6,704	—	(3,252)	—	17,802
Net cash flows (used in) provided by investment activities	(6,845)	(3,288)	553	15,758	—	6,178
Net cash flows used in financing activities	(2,011)	(819)	(504)	(7,162)	—	(10,496)

- (1) Includes other companies (see Note 1) and corporate.
- (2) Includes foreign exchange loss, net; gain on monetary position, net; and market value gain on ineffective portion of derivative financial instruments.
- (3) Includes bottle breakage.
- (4) Income from operations plus depreciation and amortization.
- (5) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other assets.

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2009	Coca-Cola FEMSA	FEMSA Comercio	Other ⁽¹⁾	Consolidation Adjustments	Consolidated
Total revenues	Ps. 102,767	Ps. 53,549	Ps. 10,991	Ps. (7,056)	Ps. 160,251
Intercompany revenue	1,277	2	5,777	(7,056)	—
Income from operations	15,835	4,457	838	—	21,130
Other expenses, net	—	—	—	—	(1,877)
Interest expense	(1,895)	(954)	(1,594)	432	(4,011)
Interest income	286	27	1,324	(432)	1,205
Other net finance expenses ⁽²⁾	—	—	—	—	179
Equity method from associates	142	—	(10)	—	132
Income taxes	(4,043)	(544)	(372)	—	(4,959)
Consolidated net income before discontinued operations	—	—	—	—	11,799
Depreciation ⁽³⁾	3,472	819	100	—	4,391
Amortization and non-cash operating expenses	438	511	162	—	1,111
Cash flows from operations before changes in working capital and provisions ⁽⁴⁾	19,745	5,787	1,100	—	26,632
Disposals of long-lived assets	124	—	5	—	129
Capital expenditures, net ⁽⁵⁾	6,282	2,668	153	—	9,103
Net cash flows provided by operating activities	16,663	4,339	1,742	—	22,744
Net cash flows (used in) provided by investment activities	(8,900)	(2,634)	158	—	(11,376)
Net cash flows used in financing activities	(6,029)	(346)	(1,514)	—	(7,889)

(1) Includes other companies (see Note 1) and corporate.

(2) Includes foreign exchange loss, net, gain on monetary position, net and market value gain on ineffective portion of derivative financial instruments.

(3) Includes bottle breakage.

(4) Income from operations plus depreciation and amortization.

(5) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other assets.

b) By Geographic Area:

Geographic disclosures begin with the country level, with the exception of Central America which had been considered a geography by itself. Prior to 2011, the Company aggregated countries into the following geographies for the purposes of its consolidated financial statements: (i) Mexico, (ii) Latincentro, which aggregated Colombia and Central America, (iii) Venezuela (iv) Mercosur, which aggregated Brazil and Argentina, and (v) Europe.

During August 2011, Coca-Cola FEMSA changed certain aspects of its business structure and organization. In order to align the Company's geographic reporting with Coca-Cola FEMSA's new internal structure, the Company has decided to change the aggregation of its countries into the following geographies for consolidated financial statement purposes: (i) Mexico and Central America division (comprising the following countries: Mexico, Guatemala, Nicaragua, Costa Rica and Panama), (ii) the South America division (comprising the following countries: Colombia, Brazil, Venezuela and Argentina) and (iii) Europe division. Venezuela operates in an economy with exchange controls and hyper-inflation; and as a result, NIF B-5 "Information by Segments" does not allow its aggregation into the South America segment. The Company is of the view that the quantitative and qualitative aspects of the aggregated operating segments are similar in nature for all periods presented.

Geographic disclosures for prior periods have been reclassified for comparison purposes.

2011	Total Revenue	Capital Expenditures, Net ⁽³⁾	Investments in Associates and Joint Ventures	Long-Lived Assets	Total Assets
Mexico and Central America ⁽¹⁾	Ps. 130,256	Ps. 8,409	Ps. 2,458	Ps. 101,380	Ps. 139,741
South America ⁽²⁾	53,113	3,461	1,438	31,430	47,182
Venezuela	20,173	645	1	7,852	12,717
Europe	—	—	75,075	75,075	76,791
Consolidation adjustments	(498)	—	—	—	(1,727)
Consolidated	Ps. 203,044	Ps. 12,515	Ps. 78,972	Ps. 215,737	Ps. 274,704

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2010					
Mexico and Central America ⁽¹⁾	Ps. 111,769	Ps. 6,796	Ps. 1,019	Ps. 72,116	Ps. 109,508
South America ⁽²⁾	44,468	3,870	1,295	28,055	40,584
Venezuela	14,048	505	1	5,469	7,882
Europe	—	—	66,478	66,478	67,010
Consolidation adjustments	(583)	—	—	—	(1,406)
Consolidated	<u>Ps. 169,702</u>	<u>Ps. 11,171</u>	<u>Ps. 68,793</u>	<u>Ps. 172,118</u>	<u>Ps. 223,578</u>
2009					
Mexico and Central America ⁽¹⁾	Ps. 101,023	Ps. 5,870			
South America ⁽²⁾	37,507	1,980			
Venezuela	22,448	1,253			
Consolidation adjustments	(727)	—			
Consolidated	<u>Ps. 160,251</u>	<u>Ps. 9,103</u>			

- (1) Central America includes Guatemala, Nicaragua, Costa Rica and Panama. Domestic (Mexico only) revenues were Ps. 122,690, Ps. 105,448 and Ps. 94,819 during the years ended December 31, 2011, 2010 and 2009, respectively. Domestic (Mexico only) long-term assets were Ps. 94,076 and Ps. 64,310 as of December 31, 2011 and 2010, respectively.
- (2) South America includes Brazil, Argentina, Colombia and Venezuela, although Venezuela is shown separately above. South America revenues include Brazilian revenues of Ps. 31,405, Ps. 27,070 and Ps. 21,465 during the years ended December 31, 2011, 2010 and 2009, respectively. Brazilian long-term assets were Ps. 15,618 and Ps. 14,410 as of December 31, 2011 and 2010, respectively. South America revenues also include Colombian revenues of Ps. 12,320, Ps. 11,057 and Ps. 9,904 during the years ended December 31, 2011, 2010 and 2009, respectively. Colombian long-term assets were Ps. 12,855 and Ps. 11,176 as of December 31, 2011 and 2010, respectively.
- (3) Includes acquisitions and disposals of property, plant and equipment, intangible assets and other assets.

Note 26. Differences Between Mexican FRS and U.S. GAAP

As discussed in Note 2, the consolidated financial statements of the Company are prepared in accordance with Mexican FRS, which differs in certain significant respects from authoritative U.S. accounting and reporting standards. Included in this Note and Note 27 are references to certain principles generally accepted in the United States of America (“U.S. GAAP”) Codifications (“ASC”) that have been adopted by the Company.

A reconciliation of the reported net income, stockholders’ equity and comprehensive income to U.S. GAAP is presented in Note 27.

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

a) Consolidation of Coca-Cola FEMSA:

The Company consolidates its investment in Coca-Cola FEMSA under Mexican FRS, in accordance with Bulletin B-8 “Consolidated and Combined Financial Statements and Valuation of Long-Term Investments in Shares” through 2008 and revised NIF B-8 “Consolidated and Combined Financial Statements” beginning in 2009 as disclosed in Note 2 M.

For U.S. GAAP purposes, the existence of substantive participating rights held by the Coca-Cola Company (non-controlling interest), as addressed in the shareholder agreement, did not allow FEMSA to consolidate Coca-Cola FEMSA in its financial statements. Therefore, FEMSA’s investment in Coca-Cola FEMSA had been accounted for by the equity method in FEMSA’s consolidated financial statement under U.S. GAAP for the year ended December 31, 2009.

As of December 31, 2009, the fair value of FEMSA’s investment in Coca-Cola FEMSA represented by 992,078,519 shares equivalent to 53.7% of its outstanding shares amounted to Ps. 85,135 based on quoted market prices of that date.

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Coca-Cola FEMSA's summarized consolidated income statement under U.S. GAAP is presented as follows for the year ended December 31, 2009:

<u>Consolidated Income Statements</u>	<u>2009</u>
Total revenues	Ps. 100,393
Income from operations	14,215
Income before income taxes	12,237
Income taxes	3,525
Consolidated net income	8,853
Less: Net income attributable to the non-controlling interest	(446)
Net income attributable to the controlling interest	8,407
Consolidated comprehensive income	10,913
Less: Comprehensive income attributable to the non-controlling interest	(592)
Consolidated comprehensive income attributable to the controlling interest	Ps. 10,321

On February 1, 2010, FEMSA and The Coca-Cola Company signed an amendment to their shareholder's agreement. This amendment allowed FEMSA to continue to consolidate Coca-Cola FEMSA for Mexican FRS purposes during 2009, because the Company has maintained control over its operating and financial policies. As a result of the modifications to the shareholder's agreement, substantive participating rights held by The Coca-Cola Company were amended and became protective rights. As a result of the modifications made to the shareholders' agreement, which provided control to the Company over Coca-Cola FEMSA, the Company recognized a business combination without transfer of consideration in order to comply with ASC 805 and beginning February 1, 2010 started to consolidate Coca-Cola FEMSA for U.S. GAAP purposes.

The Company estimated the total fair value of the interest acquired in Coca-Cola FEMSA to be Ps. 148,110 based on Coca-Cola FEMSA's outstanding shares price quoted in the NYSE of Ps. 80.21 (level 1 information) as of February 1, 2010. As a result of a business combination without transfer of consideration, the Company recognized a gain in other income in the consolidated income statements under U.S. GAAP which amounted to Ps. 39,847. This gain represents the difference between the book value and the fair value of the interest acquired in Coca-Cola FEMSA as of the date of the control acquisition and is reported in "other income, net."

As of the acquisition date and based on the purchase price allocation, the Company identified intangible assets with indefinite lives consisting of distribution rights of Ps. 113,434 and depreciable long-lived assets that amounted to Ps. 27,409. The Company also recognized goodwill of Ps. 41,761 as part of this transaction. The goodwill recognized with our control acquisition of Coca-Cola FEMSA is primarily related to synergistic value created from having an unified operating system that will strategically position us to better market and distribute our beverage brands in Mexico, Central America, Brazil, Colombia, Venezuela and Argentina.

The fair value of all Coca-Cola FEMSA net assets acquired by the Company is as follows:

Total current assets	Ps. 19,874
Property, plant and equipment	31,431
Distribution rights	113,434
Other long-term assets	5,548
Total current liabilities	19,054
Total long-term liabilities	40,156
Total liabilities	59,210
Net assets acquired	111,077
Goodwill	41,761
Total fair value of Coca-Cola FEMSA	152,838
Fair value of the Non-controlling Interest in the subsidiaries of Coca-Cola FEMSA ⁽¹⁾	4,728
Fair value of the Non-controlling Interest of FEMSA in Coca-Cola FEMSA ⁽²⁾	68,535
Fair value of the Controlling Interest acquired in Coca-Cola FEMSA	79,575

(1) The fair value of the non-controlling interest in the subsidiaries of Coca-Cola FEMSA was estimated using the market approach.

(2) The fair value of the non-controlling interest of FEMSA in Coca-Cola FEMSA was estimated using the market approach. The main input used to estimate fair value was share prices quoted in the Mexican Stock Exchange.

After acquisition date for the year ended December 31, 2010, additional depreciation and amortization of identified assets net of deferred income tax recognized in the Consolidated Income Statement were an amount of Ps. 661.

The Company recognized within its consolidated income statement revenues of Ps. 95,839 and a net income of Ps. 9,734 for the year ended December 31, 2010, for the eleven months of operations related to Coca-Cola FEMSA after the acquisition date.

Unaudited Pro Forma Financial Data

The following unaudited consolidated pro forma financial data represents the Company's historical financial statements, adjusted to give effect to (i) the acquisition of Coca-Cola FEMSA mentioned in the preceding paragraphs; (ii) certain accounting adjustments related mainly to the depreciation of the step-up adjustment for fixed assets acquired, (iii) eliminating the gain on the acquisition of Coca-Cola FEMSA.

The unaudited pro forma adjustments assume that the acquisition was made at the beginning of the year immediately preceding the year of acquisition and are based upon available information and other assumptions that management considers reasonable. The pro forma financial information data does not purport to represent what the effect on the Company's consolidated operations would have been, had the transactions in fact occurred at the beginning of each year, nor are they intended to predict the Company's future results of operations.

	FEMSA unaudited pro forma consolidated results for the years ended December 31,	
	2010 ⁽²⁾	2009 ⁽²⁾
Total revenues	184,336	195,090
Income before taxes ⁽¹⁾	47,607	18,924
Net income ⁽¹⁾	32,543	15,022

(1) In 2010 includes gain on the FEMSA Cerveza exchange.

(2) Does not include gain due to Coca-Cola FEMSA's control acquisition.

b) Exchange of FEMSA Cerveza and Acquisition of 20% Economic Interest in Heineken:

As explained in Note 5 B i), on April 30, 2010, FEMSA exchanged 100% of its shares in FEMSA Cerveza for a 20% economic interest in Heineken Group. According to Mexican FRS, the disposal of FEMSA Cerveza has been accounted as a discontinued operation.

For U.S. GAAP purposes, FEMSA Cerveza has not been accounted for as a discontinued operation, given the significant cash flows that continue to be exchanged between FEMSA's ongoing operations and those of the disposed entity. As a result, the disposition was accounted for as a sale of a group of assets and classified within continuing operations in the consolidated financial statements under U.S. GAAP, and not as the disposal of a component of FEMSA. As such, the Company's Mexican FRS consolidated income statements have reported FEMSA Cerveza's results of operations prior to the April 30, 2010 exchange in one line item (discontinued operations). For U.S. GAAP purposes it continues to fully consolidate its line by line results prior to the exchange. See Note 5 B i) for summarized FEMSA Cerveza financial statements for dates and periods prior to April 30, 2010 under Mexican FRS.

The acquisition of the 20% economic interest in Heineken has been accounted for taking into consideration closing prices of Heineken N.V. and Heineken Holding N.V. as of the acquisition date (see Note 5 B i) As of April 30, 2010, under U.S. GAAP, the Company recognized a gain of Ps. 27,132 within other income in the consolidated statements of income and comprehensive income, which represents the difference between the book value of its interest in FEMSA Cerveza and the acquisition value of Heineken recorded at the exchange date. The basis of the assets and liabilities under U.S. GAAP of FEMSA Cerveza at the exchange date was different from the basis of such assets and liabilities under Mexican FRS, additionally the goodwill of Ps. 10,600 allocated to FEMSA Cerveza was cancelled as part of this transaction (see Note 26 M); accordingly, the gain recorded on disposal under U.S. GAAP differs from that under Mexican FRS. The deferred income tax for U.S. GAAP purposes amounted to Ps. 10,099.

For subsequent accounting, the Company recognizes its investment in Heineken for purposes of Mexican FRS under the equity method after reconciling Heineken's net income and comprehensive income from IFRS to Mexican FRS, as a result of its ability to exercise significant influence over its operating and financial policies as disclosed in Note 5 B i). However, for purposes of U.S. GAAP, the Company recognizes its investment in Heineken based on the cost method because it was unable to obtain the required information to reconcile Heineken's net income to U.S. GAAP on an accurate and reliable basis.

c) Restatement of Prior Year Financial Statements for Inflationary Effects:

As a result of discontinued inflationary accounting in 2008 for subsidiaries that operate in non-inflationary economic environments, the Company's financial statements are no longer considered to be presented in a reporting currency that comprehensively includes the effects of price level changes; therefore, the inflationary effects of inflationary economic environments arising in 2009, 2010 and 2011 result in a difference to be reconciled for U.S. GAAP purposes. The equity method of Coca-Cola FEMSA recorded by FEMSA as of January 31, 2010 and December 31, 2009 considers this difference, as well as the consolidated net income for the eleven months ended on December 31, 2010 and the consolidated net income for the full year ended on December 31, 2011, regarding inflationary effects of Argentina, Nicaragua and Costa Rica, inflationary economies according to MFRS in which Coca-Cola FEMSA operates. Inflationary effects of Venezuela are not reconciled because is accounted as a hyper-inflationary economy for U.S. GAAP purposes, since January 1, 2010 (see Note 4 A).

For U.S. GAAP reconciliation purposes, the Company has applied an accommodation available in Item 17(c)(2)(iv)(B) of the instructions to Form 20-F whereby the International Accounting Standard 21 Changes in Foreign Exchange Rates (IAS 21) and IAS 29 Financial Reporting in Hyperinflationary Economies (IAS 29) indexation approach is applied. A U.S. GAAP reconciliation which would otherwise require a hyper-inflationary economy to be reported using the dollar as the functional currency is not required to be provided using this accommodation if amounts in a currency of a hyperinflationary economy are translated into the reporting currency in accordance with IAS 21. Additionally, the information related to the revenues as well as long-term assets and total assets related to the Venezuelan subsidiary are shown separately in the segment disclosure footnote (see Note 25 B). Recent devaluations in the Venezuelan currency are also discussed in Note 3.

d) Classification Differences:

Certain items require a different classification in the balance sheet or income statement under U.S. GAAP. These include:

- Beginning on January 1, 2010, restricted cash has been classified from other current assets to cash and cash equivalents according to NIF C-1 Cash and Cash Equivalents. Under U.S. GAAP, restricted cash remains classified as other current or long term assets;
- Impairment of goodwill and other long-lived assets, the gains or losses on the disposition of fixed assets, all severance payments associated with an ongoing benefit and amendments to pension plans, financial expenses from labor liabilities and employee profit sharing, among others, are recorded as part of operating income under U.S. GAAP, but not under Mexican FRS;
- Under Mexican FRS, deferred taxes are classified as non-current, while under U.S. GAAP they are classified based on the classification of the related asset or liability or their estimated reversal date when not associated with an asset or liability;
- Under Mexican FRS, market value gain/loss of embedded derivatives contracts are recorded as market value gain/loss of ineffective portion of derivatives financial instruments. For U.S. GAAP purposes, this effect has been reclassified to operating expenses; and
- Under Mexican FRS, restructuring costs are recorded as other expenses while for U.S. GAAP purposes restructuring costs are recorded as operating expense.

e) Deferred Promotional Expenses:

As explained in Note 4 E, under Mexican FRS, promotional expenses related to the launching of new products or product presentations are recorded as prepaid expenses. For U.S. GAAP purposes, such promotional expenses are expensed as incurred.

f) Intangible Assets:

According to Mexican FRS, in 2003 the amortization of goodwill was discontinued. For U.S. GAAP purposes, since 2002 goodwill and indefinite-lived intangible assets are no longer subject to amortization.

Under U.S. GAAP, indefinite-lived intangible assets are recorded at estimated fair value at the date of the acquisition, under Mexican FRS intangible assets with indefinite life are recognized at its estimated fair value, limited to the underlying amount of the purchase price consideration. This results in a difference in accounting for acquired intangible assets between Mexican FRS and U.S. GAAP.

During the year ended December 31, 2009, the Company acquired the Brisa water business in Colombia. For U.S. GAAP, acquired distribution rights intangible assets are recorded at estimated fair value at the date of the purchase. Under Mexican FRS, this distribution rights intangible asset is recorded at its estimated fair value, limited to the underlying amount of the purchase price consideration. This results in a difference in accounting for acquired intangible assets between Mexican FRS and U.S. GAAP. These differences have resulted in a gain being recorded in 2009 for U.S. GAAP purposes in the amount of Ps. 72.

g) Restatement of Imported Equipment:

Through December 2007, the Company restated imported machinery and equipment by applying the inflation rate and the exchange rate of the currency of the country of origin. The resulting amounts were then translated into Mexican pesos using the period end exchange rate. This result in a difference in accounting between Mexican FRS and U.S. GAAP.

NIF B-10 establishes that imported machinery and equipment are recorded using the exchange rate of the acquisition date. Subholding Companies that operate in inflationary economic environments have to restate those assets by applying the inflation rate in their own countries. The change in this methodology did not impact significantly the consolidated financial position of the Company.

h) Capitalization of the Comprehensive Financing Result:

Through 2006, and according to Bulletin C-6 "Property, plant and equipment" the Company had not capitalized the comprehensive financial result related to fixed assets.

Beginning in 2007, according to NIF D-6 "Capitalization of Comprehensive Financing Result," the Company capitalized the comprehensive financing result generated by borrowings obtained to finance qualifying assets.

According to U.S. GAAP, if interest expense (does not include all the components of comprehensive result defined by Mexican FRS) is incurred during the construction of qualifying assets and the net effect is material, capitalization is required for all assets that require a period of time to get them ready for their intended use. The net effect of interest expenses incurred to bring qualifying assets to the condition for its intended use was Ps. 92, Ps. 90 and Ps. 90 for the years ended on December 31, 2011, 2010 and 2009, respectively.

A reconciling item is included for the difference in capitalized comprehensive financing result and the related amortization recorded under Mexican FRS and the corresponding capitalized interest expense and related amortization recorded under U.S. GAAP.

i) Fair Value Measurements:

The Company adopted a FASB pronouncement that establishes a framework for measuring fair value providing a consistent definition that focuses on exit price and prioritizes the use of market based inputs over company specific inputs. This pronouncement requires companies to consider its own nonperformance risk when measuring liabilities carried at fair value, including derivative financial instruments. The effective date of this standard for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually) started on January 1, 2009.

Additionally, U.S. GAAP establishes a three level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs are fully described in Note 19. The Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date as shown in Note 19.

The Company is exposed to counterparty credit risk on all derivative financial instruments. Because the amounts are recorded at fair value, the full amount of the Company's exposure is the carrying value of these instruments. Credit risk is monitored through established approval procedures, which consider grading counterparties periodically in order to offset the net effect of counterparty's credit risk. As a result the Company only enters into derivative transactions with well-established financial institutions; and estimates that such risk is minimal.

U.S. GAAP allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument by instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, the unrealized gains and losses for that

instrument shall be reported in earnings at each subsequent reporting date. The Company did not elect to adopt fair value option for any of its outstanding instruments; therefore, it did not have any impact on its consolidated financial statements.

In accordance with the financial instruments disclosures, it is necessary to disclose, in the body of the financial statements or in the notes, the fair value of financial instruments for which it is practicable to estimate it, and the method(s) used to estimate the fair value. The Company estimates that carrying amounts of cash and cash equivalents, accounts receivable, interest payable, suppliers, accounts payable and other current liabilities approximate their fair value due to their short maturity.

Additionally as explained in Note 16, the Company has a bonus program in which the cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted.

j) Deferred Income Taxes, Employee Profit Sharing and Uncertain Tax Positions:

The calculation of deferred income taxes and employee profit sharing for U.S. GAAP purposes differs from Mexican FRS as follows:

- Under Mexican FRS, inflation effects on the deferred taxes balance generated by monetary items are recognized in the income statement as part of the result of monetary position of subsidiaries in inflationary economic environments. Under U.S. GAAP, the deferred taxes balance is classified as a non-monetary item. As a result, the consolidated U.S. GAAP income statement differs with respect to the presentation of the gain or loss on monetary position and deferred income taxes provision;
- Under Mexican FRS, deferred employee profit sharing is calculated using the asset and liability method, which is the method used to compute deferred income taxes under U.S. GAAP. Employee profit sharing is deductible for purposes of Mexican taxes from profit. This deduction reduces the payments of income taxes in subsequent years. For Mexican FRS purposes, the Company did not record deferred employee profit sharing, since is not expected to materialize in the future; and
- The differences in the deferred income tax of the control acquisition of Coca-Cola FEMSA, deferred income tax of the exchange of FEMSA Cerveza shares, deferred promotional expenses, intangible assets, restatement of imported machinery and equipment, capitalization of comprehensive financial result, employee benefits and deferred employee profit sharing, explained in Note 26 A, B, E, F, G, H, and J, generate a difference when calculating deferred income taxes under U.S. GAAP compared to that presented under Mexican FRS (see Note 23 C).

The reconciliation of deferred income tax and employee profit sharing, as well as the changes in the balances of deferred taxes, are as follows:

<u>Reconciliation of Deferred Income Taxes, Net</u>	<u>2011</u>	<u>2010</u>
Deferred income taxes under Mexican FRS	Ps. 13,450	Ps. 10,221
U.S. GAAP adjustments:		
Deferred promotional expenses	(4)	(14)
Deferred income tax of Coca-Cola FEMSA's fair value adjustments	23,813	21,833
Intangible assets	(91)	(22)
Deferred charges	(51)	(20)
Deferred revenues	17	26
Equity method of Heineken	(1,490)	(859)
Restatement of imported equipment	(3)	85
Capitalization of interest expense	4	4
Tax deduction for deferred employee profit sharing	19	50
Employee benefits	(243)	(220)
Total U.S. GAAP adjustments	21,971	20,863
Deferred income taxes, net, under U.S. GAAP	Ps. 35,421	Ps. 31,084

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<u>Changes in the Balance of Deferred Income Taxes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Initial liability (asset) balance	Ps. 31,084	Ps. (2,405)	Ps. 37
Provision for the year	(885)	(159)	(795)
Change in the statutory income tax rate	(99)	(58)	(90)
Deferred tax of the exchange of FEMSA Cerveza	—	10,001	—
Control acquisition of Coca-Cola FEMSA and fair value adjustments	—	23,843	—
Application of tax loss carryforwards due to amnesty adoption	—	—	2,066
Reversal of tax loss carryforwards allowance	—	—	(2,066)
Acquisition of subsidiaries	186	—	—
Reversal of tax loss carryforwards	—	—	(1,874)
Financial instruments	38	(19)	319
Cumulative translation adjustment	5,060	(60)	(134)
Unrecognized labor liabilities	(3)	(59)	132
Others	40	—	—
Ending liability (asset) balance	Ps. 35,421	Ps. 31,084	Ps. (2,405)

<u>Reconciliation of Deferred Employee Profit Sharing</u>	<u>2011</u>	<u>2010</u>
Deferred employee profit sharing under Mexican FRS	Ps. —	Ps. —
U.S. GAAP adjustments:		
Allowance for doubtful accounts	(2)	(1)
Inventories	(1)	8
Property, plant and equipment	154	25
Deferred charges	4	4
Intangible assets	(1)	(1)
Labor liabilities	(274)	(233)
Other liabilities	(148)	(186)
Total U.S. GAAP adjustments	(268)	(384)
Valuation allowance	202	206
Deferred employee profit sharing under U.S. GAAP	Ps. (66)	Ps. (178)

<u>Changes in the Balance of Deferred Employee Profit Sharing</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Initial balance (asset) liability	Ps. (178)	Ps. 134	Ps. 214
Provision for the year	120	(257)	(234)
Acquisition of Coca-Cola FEMSA	—	(17)	—
Net effect on exchange of FEMSA Cerveza	—	(118)	—
Labor liabilities	(4)	82	42
Valuation allowance	(4)	(2)	112
Ending balance (asset) liability	Ps. (66)	Ps. (178)	Ps. 134

According to U.S. GAAP, the Company is required to recognize in its financial statements the impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than 50% likely of being realized. Any excess between the tax position taken in the tax return and the tax position recognized in the financial statements using the criteria above results in the recognition of a liability in the financial statements for the uncertain position. Similarly, if a tax position fails to meet the more-likely-than-not recognition threshold, the benefit taken in tax return will also result in the recognition of a liability in the financial statements for the full amount of the unrecognized benefit. According to Mexican FRS, the Company is required to record tax contingencies in its financial statements when such liabilities are probable in nature and estimable. However, this difference between Mexican FRS and U.S. GAAP is not material to the Company's consolidated financial statements during any of the periods presented herein, and has thus not resulted in a reconciling item.

k) Employee Benefits:

NIF D-3 "Employee Benefits" eliminates the recognition of the additional labor liability resulting from the difference between actual benefits and the net projected liabilities, establishes a maximum of five years to amortize the beginning balance of past labor costs of pension plans and severance indemnities and requires recording actuarial gains or losses of severance indemnities as part of the income from operations during the period when those are incurred. The adoption of NIF D-3 generates a difference in the unamortized net transition obligation and in the amortization expense of pension plans and severance indemnities. Under U.S. GAAP the Company is required to fully recognize as an asset or liability from the overfunded or underfunded status of defined pension and other postretirement benefit plans.

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For the adoption of NIF B-10 for Mexican FRS, the Company is required to apply real rates for inflationary economic environments and nominal rates for non-inflationary economic environments in the actuarial calculations. The Company uses the same criteria for interest rates for both U.S. GAAP and Mexican FRS.

The reconciliation of the pension cost for the year and related labor liabilities is as follows:

<u>Cost for the Year</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net cost recorded under Mexican FRS	Ps. 634	Ps. 600	Ps. 569
Net cost of Coca-Cola FEMSA		—	(313)
Net cost of FEMSA Cerveza (discontinued operation)		182	574
U.S. GAAP adjustments:			
Amortization of unrecognized transition obligation	(54)	(46)	(53)
Amortization of prior service cost	(1)	(1)	5
Amortization of net actuarial loss	(11)	(4)	2
Total U.S. GAAP adjustment	(66)	(51)	(46)
Cost for the year under U.S. GAAP	Ps. 568	Ps. 731	Ps. 784

<u>Labor Liabilities</u>	<u>2011</u>	<u>2010</u>
Employee benefits under Mexican FRS	Ps. 2,258	Ps. 1,883
U.S. GAAP adjustments:		
Unrecognized net transition obligation	53	115
Unrecognized labor cost of past services	319	337
Unrecognized net actuarial loss	518	356
U.S. GAAP adjustments to stockholders' equity	890	808
Labor liabilities under U.S. GAAP	Ps. 3,148	Ps. 2,691

Estimates of the unrecognized items expected to be recognized as components of net periodic pension cost during 2012 are shown in the table below:

	<u>Pension and Retirement Plans</u>	<u>Seniority Premiums</u>	<u>Postretirement Medical Services</u>
Actuarial net loss and prior service cost recognized in cumulative other comprehensive income during the year	Ps. 82	Ps. 11	Ps. 2
Actuarial net loss and prior service cost recognized as a component of net periodic cost	42	5	2
Net transition liability recognized as a component of net periodic cost	9	—	2
Actuarial net loss, prior service cost and transition liability included in cumulative other comprehensive income	570	(23)	98
Estimate to be recognized as a component of net periodic cost over the following fiscal year:			
Transition obligation	(11)	—	(1)
Prior service credit	(3)	—	—
Actuarial gain	(21)	3	(5)

l) Non-controlling Interests:

Under Mexican FRS, the non-controlling interest in consolidated subsidiaries is presented as a separate component within stockholders' equity in the consolidated balance sheet.

Beginning as of January 1, 2009, under U.S. GAAP, this item is presented as separate component within consolidated stockholders' equity in the consolidated balance sheet. Additionally, consolidated net income is adjusted to include the net income attributed to the non-controlling interest. And consolidated comprehensive income is adjusted to include the net income attributed to the non-controlling interest. Because these changes are to be applied retrospectively, they eliminate the differences between MFRS and U.S. GAAP in the presentation of the non-controlling interest in the consolidated financial statements.

m) FEMSA's Non-controlling Interest Acquisition:

In accordance with Mexican FRS, the Company applied the entity theory to the acquisition of the non-controlling interest by FEMSA in May 1998, through an exchange offer. Accordingly, no goodwill was created as a result of such acquisition and the difference between the book value of the shares acquired by FEMSA and the FEMSA shares exchanged was recorded as additional paid-in capital. The direct out-of-pocket costs identified with the purchase of non-controlling interest were included in other expenses.

In accordance with U.S. GAAP at the time, the acquisition of non-controlling interest was accounted for under the purchase method, using the market value of shares received by FEMSA in the exchange offer to determine the cost of the acquisition of such non-controlling interest and the related goodwill. Under U.S. GAAP at the time, the direct out-of-pocket costs identified with the purchase of non-controlling interest was treated as additional goodwill.

Additionally, U.S. GAAP accounting standards related to goodwill, require the allocation of goodwill to the related reporting. Reporting units are identified at the operating segment or the component level that will generate the related cash flows. As of December 31, 2011, the remaining allocation of the goodwill generated by the previously mentioned acquisition of non-controlling interest was as follows:

FEMSA Comercio	Ps. 1,085
Other	918
	<u>Ps. 2,003</u>

As of February 1, 2010 the goodwill allocated to Coca-Cola FEMSA amounted to Ps. 4,753 and was re-evaluated as part of the control acquisition of Coca-Cola FEMSA.

As of April 30, 2010, the goodwill allocated to FEMSA Cerveza amounted to Ps. 10,600 and was cancelled due to the transaction described in Note 26 B, as part of the disposition of FEMSA Cerveza net assets.

n) Deconsolidation of Crystal Brand Water in Brazil:

During 2009, Coca-Cola FEMSA established a joint venture with The Coca-Cola Company for the production and sale of Crystal brand water in Brazil. Coca-Cola FEMSA has recorded a gain for U.S. GAAP purposes of Ps. 120 related to the deconsolidation of its net assets related to the Crystal operations. Approximately, Ps. 120 of previously recorded unearned revenues related to Crystal operations remain recorded for Mexican FRS purposes, and are being amortized into income along with the results from the joint venture over the following three years (through 2012) for Mexican FRS purposes.

o) Statement of Cash Flows:

Statement of Cash Flows prepared under Mexican FRS is similar to cash flows standards for U.S. GAAP except for different presentation of interest costs, and certain other supplemental disclosures.

[Table of Contents](#)p) **Financial Information Under U.S. GAAP:**

<u>Consolidated Balance Sheets</u>	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	Ps. 25,841	Ps. 26,703
Investments	1,329	66
Accounts receivable	10,499	7,702
Inventories	14,384	11,350
Recoverable taxes	4,311	4,243
Other current assets	3,026	1,635
Total current assets	59,390	51,699
Investments in shares:		
Heineken	69,749	63,413
Other investments	3,897	2,315
Property, plant and equipment	55,632	44,650
Intangible assets	189,511	163,170
Deferred income tax and deferred employee profit sharing	543	541
Other assets	11,294	8,729
TOTAL ASSETS	Ps. 390,016	Ps. 334,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Bank loans and notes payable	Ps. 638	Ps. 1,578
Current maturities of long-term debt	4,935	1,725
Interest payable	216	165
Suppliers	21,475	17,458
Deferred income tax	46	113
Taxes payable	3,208	2,180
Accounts payable, and other current liabilities	8,158	7,410
Total current liabilities	38,676	30,629
Long-Term Liabilities:		
Bank loans and notes payable	24,031	21,927
Employee benefits	3,148	2,691
Deferred taxes liability	36,292	31,539
Contingencies and other liabilities	4,708	5,595
Total long-term liabilities	68,179	61,752
Total liabilities	106,855	92,381
Equity:		
Controlling interest	182,644	163,641
Non-controlling interest	100,517	78,495
Total equity:	283,161	242,136
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 390,016	Ps. 334,517

Consolidated Statements of Income and Comprehensive Income	2011	2010	2009
Net sales	Ps. 201,421	Ps. 175,257	Ps. 102,039
Other operating revenues	2,821	1,796	863
Total revenues	204,242	177,053	102,902
Cost of sales	118,662	102,665	59,841
Gross profit	85,580	74,388	43,061
Operating expenses:			
Administrative	10,070	9,420	7,769
Selling	50,208	43,302	26,451
Restructuring	—	446	180
Market value (gain) loss of derivative financial instruments	50	(15)	—
	60,328	53,153	34,400
Income from operations	25,252	21,235	8,661
Comprehensive financing result:			
Interest expense	(2,721)	(3,966)	(3,013)
Interest income	999	1,121	310
Foreign exchange gain (loss), net	1,068	(332)	(26)
Gain (loss) on monetary position, net	51	219	(1)
Market value gain (loss) on ineffective portion of derivative financial instruments	(109)	202	73
	(712)	(2,756)	(2,657)
Other (expenses) income, net	(213)	68,337	52
Income before taxes	24,327	86,816	6,056
Taxes	6,563	15,014	(127)
Income before participation in affiliated companies	17,764	71,802	6,183
Participation in affiliated companies:			
Coca-Cola FEMSA	—	183	4,516
Other associates companies	87	219	(14)
	87	402	4,502
Consolidated net income	Ps. 17,851	Ps. 72,204	Ps. 10,685
Less: Net income attributable to the non-controlling interest	(5,402)	(4,759)	(783)
Net income attributable to controlling interest	Ps. 12,449	Ps. 67,445	Ps. 9,902
Consolidated net income	Ps. 17,851	Ps. 72,204	Ps. 10,685
Other comprehensive income (loss)	13,297	(1,702)	4,335
Consolidated comprehensive income	31,148	70,502	15,020
Less: Comprehensive income attributable to the non-controlling interest	(9,290)	(4,867)	(776)
Consolidated comprehensive income attributable to the controlling interest	21,858	65,635	14,244
Net controlling interest income per share:			
Per Series "B"	Ps. 0.62	Ps. 3.36	Ps. 0.49
Per Series "D"	0.78	4.20	0.62

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<u>Consolidated Cash Flows</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:			
Net income	Ps. 17,851	Ps. 72,204	Ps. 10,685
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Inflation effect	(49)	(215)	(1)
Depreciation	5,743	4,884	2,786
Amortization	1,043	1,620	2,487
Equity method of associates	(87)	(402)	(4,502)
Deferred income taxes	(986)	9,784	(3,185)
Other adjustments regarding operating activities	644	1,336	5,353
Profit regarding Coca-Cola FEMSA (see Note 27 A)	—	(39,847)	—
Income from the exchange of FEMSA Cerveza (see Note 27 B)	—	(27,132)	—
Changes in operating assets and liabilities net of business acquisitions:			
Working capital investment	(2,887)	(5,609)	(1,640)
Dividends received from Coca-Cola FEMSA	—	—	722
(Recoverable) payable taxes, net	1,190	(1,946)	673
Interest payable	244	(851)	(370)
Labor obligations	(496)	(741)	(512)
Derivative financial instruments	(353)	(281)	(428)
Net cash flows provided by operating activities	<u>21,857</u>	<u>12,804</u>	<u>12,068</u>
Cash flows from investing activities:			
Long-lived assets sale	535	643	422
Acquisition of property, plant and equipment	(10,615)	(9,195)	(3,779)
Purchase of investments	(1,329)	(66)	—
Proceeds from investments	66	1,108	—
Other assets acquisitions	(5,053)	(2,111)	(3,660)
Recovery of long-term financial receivables with FEMSA Cerveza	—	12,209	—
Net effect of FEMSA Cerveza exchange	—	(158)	—
Cash incorporated from Coca-Cola FEMSA	—	5,950	—
Other disposals	—	1,949	—
Payment of debt for the acquisition of Grupo Tampico, net of cash acquired (Note 5A)	(2,414)	—	—
Payment of debt for the acquisition of Grupo CIMSA, net of cash acquired (Note 5A)	(1,912)	—	—
Net cash flows (used in) provided by investing activities	<u>(20,722)</u>	<u>10,329</u>	<u>(7,017)</u>
Cash flows from financing activities:			
Bank loans obtained	6,606	12,381	16,775
Bank loans paid	(3,732)	(12,569)	(14,541)
Dividends declared and paid	(6,623)	(3,813)	(1,620)
Restricted cash activity for the year	(94)	(181)	(88)
Other financing activities	(125)	(194)	(4)
Net cash flows (used in) provided by financing activities	<u>(3,968)</u>	<u>(4,376)</u>	<u>522</u>
Effect of exchange rate changes on cash and cash equivalents	1,971	50	(596)
Cash and cash equivalents:			
Net (decrease) increase	(862)	18,807	4,977
Initial cash	26,703	7,896	2,919
Ending balance	Ps. 25,841	Ps. 26,703	Ps. 7,896
Supplemental cash flow information:			
Interest paid	Ps. (3043)	Ps. (2,868)	Ps. (2,586)
Income taxes paid	(6,457)	(6,171)	(3,737)

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The effect of exchange rate changes on cash balances held in foreign currencies was Ps. 1,971 as a gain as of December 31, 2011, Ps. 50 as a gain as of December 31, 2010, and a loss of Ps. 596 as of December 31, 2009, respectively.

<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>2011</u>	<u>2010</u>
Stockholders' equity at the beginning of the year	Ps. 242,136	Ps. 99,442
Dividends declared and paid	(6,625)	(3,813)
Non-controlling interest other comprehensive income	3,888	(891)
Acquisition of Grupo Tampico through issuance of Coca-Cola FEMSA shares (Note 5 A)	7,828	—
Acquisition of Grupo CIMSA through issuance of Coca-Cola FEMSA shares (Note 5 A)	9,017	—
Acquisition of Coca-Cola FEMSA	—	77,277
Other transactions of non-controlling interest	(115)	(273)
Other comprehensive income (loss) attributable a the controlling interest:		
Derivative financial instruments	157	1,036
Labor liabilities	(29)	(302)
Cumulative translation adjustment	9,295	(3,130)
Reversal of inflation effect	(242)	1,111
Recycling of OCI due to exchange of beer business	—	(525)
Other comprehensive gain (loss)	9,181	(1,810)
Net income	17,851	72,204
Stockholders' equity at the end of the year	<u>Ps. 283,161</u>	<u>Ps. 242,136</u>

As of December 31, 2011, the balance of cumulative translation adjustment is Ps. 8,240. As of December 31, 2011 the total balance of other comprehensive income is Ps. 9,553 net of a deferred income tax of Ps. 5,095.

Note 27. Reconciliation of Mexican FRS to U.S. GAAP

a) Reconciliation of Net Income:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net consolidated income under Mexican FRS	Ps. 20,684	Ps. 45,290	Ps. 15,082
Non-controlling interest under Mexican FRS of Coca-Cola FEMSA	—	(222)	(4,390)
U.S. GAAP adjustments:			
Reversal of inflation effect (Note 26 C)	82	(24)	—
Participation in Coca-Cola FEMSA (Note 26 A)	—	(39)	(63)
Coca-Cola FEMSA acquisition depreciation and amortization (Note 26 A)	(245)	(961)	—
Heineken equity method (Note 26 B)	(3,418)	(2,789)	—
Net effect on exchange of FEMSA Cerveza (Note 26 B)	—	(9,881)	—
Restatement of imported equipment (Note 26 G)	(187)	(165)	(12)
Capitalization of interest expense (Note 26 H)	(131)	57	(49)
Deferred income taxes (Note 26 J)	1,112	769	(9)
Deferred employee profit sharing (Note 26 J)	(120)	257	80
Gain on control acquisition of Coca-Cola FEMSA (Note 26 A)	—	39,847	—
Gain on de-consolidation of Crystal operation (Note 26 N)	(25)	(44)	—
Deferred promotional expenses (Note 26 F)	34	58	—
Employee benefits (Note 26 K)	65	51	46
Total U.S. GAAP adjustments	<u>(2,833)</u>	<u>27,136</u>	<u>(7)</u>
Net income under U.S. GAAP	<u>Ps. 17,851</u>	<u>Ps. 72,204</u>	<u>Ps. 10,685</u>

b) Reconciliation of Stockholders' Equity:

	<u>2011</u>	<u>2010</u>
Total stockholders' equity under Mexican FRS	Ps. 191,114	Ps. 153,013
U.S. GAAP adjustments:		
Control acquisition of Coca-Cola FEMSA (Note 26 A) ⁽¹⁾	98,339	90,980
Coca-Cola FEMSA acquisition depreciation and amortization (Note 26 A)	(1,206)	(961)
Gain on acquisition of Brisa intangible assets (Note 26 F)	72	72
Gain on deconsolidation of Crystal operation (Note 26 N)	50	75
Deferred promotional expenses (Note 26 E)	(13)	(46)
Reversal of inflation effect (Note 26 C)	(831)	(443)
Participation in Coca-Cola FEMSA (Note 26 A)	—	(39)
Heineken equity method (Note 26 B)	(5,326)	(3,065)
Intangible assets and goodwill (Note 26 F)	100	100
Restatement of imported equipment (Note 26 G)	181	351
Capitalization of interest expense (Note 26 H)	71	200
Deferred income taxes (Note 26 J)	(569)	523
Deferred employee profit sharing (Note 26 J)	66	181
Employee benefits (Note 26 K)	(890)	(808)
FEMSA's non-controlling interest acquisition (Note 26 M)	2,003	2,003
Total U.S. GAAP adjustments	92,047	89,123
Stockholders' equity under U.S. GAAP	Ps. 283,161	Ps. 242,136

(1) The Control acquisition of Coca-Cola FEMSA, is recorded net of a deferred income tax liability of Ps. 21,403 for both years.

c) Reconciliation of Comprehensive Income (OCI):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Consolidated comprehensive income under Mexican FRS	Ps. 27,936	Ps. 42,589	Ps. 21,355
Comprehensive income of the non-controlling interest under Mexican FRS	(7,119)	(4,190)	(6,734)
Comprehensive income of the controlling interest under Mexican FRS	20,817	38,399	14,621
U.S. GAAP adjustments:			
Net income (Note 27 A)	(2,682)	27,192	(7)
Cumulative translation adjustment	2,777	36	91
Reversal of inflation effect	(242)	1,111	(746)
Heineken equity method	1,217	(276)	—
Recycling of OCI due to exchange of beer business	—	(525)	—
Additional labor liability in excess of unamortized transition obligation	(29)	(302)	285
Comprehensive income under U.S. GAAP	Ps. 21,858	Ps. 65,635	Ps. 14,244

Note 28. Implementation of International Financial Reporting Standards

The consolidated financial statements to be issued by the Company for the year ending December 31, 2012 will be its first annual financial statements that comply with IFRS as issued by the International Accounting Standards Board. The transition date is January 1, 2011 and, therefore, the year ended December 31, 2011 will be the comparative period to be covered. IFRS 1, “First-Time Adoption of International Financial Reporting Standards” (IFRS 1), sets mandatory exceptions and allows certain optional exemptions to the complete retrospective application of IFRS.

The Company applied the following mandatory exceptions to retrospective application of IFRS, effective as of the transition date:

- **Accounting Estimates:**

Estimates prepared under IFRS as of January 1, 2011 are consistent with the estimates recognized under Mexican FRS as of the same date, unless the Company is required to adjust such estimates to agree with IFRS.

- **Derecognition of Financial Assets and Liabilities:**

The Company applied the derecognition rules of IAS 39, “Financial Instruments: Recognition and Measurement” (IAS 39), prospectively for transactions occurring on or after the date of transition.

- **Hedge Accounting:**

As of the transition date, the Company measured at fair value all derivative financial instruments and hedging relationships designated and documented effectively as accounting hedges as required by IAS 39, which is consistent with the treatment under Mexican FRS.

As a result, there was no impact in the Company’s consolidated financial statements due to the application of this exception.

- **Non-controlling Interest:**

The Company applied the requirements in IAS 27, “Consolidated and Separate Financial Statements” (IAS 27) related to non-controlling interests prospectively beginning on the transition date.

The Company has elected the following optional exemptions to retrospective application of IFRS, effective as of the transition date:

- **Business Combinations and Acquisitions of Associates and Joint Ventures:**

According to IFRS 1, an entity may elect not to apply IFRS 3 “Business Combinations” (IFRS 3) retrospectively to acquisitions made prior of the transition date to IFRS.

The exemption for past business combinations also applies to past acquisitions of investments in associates and of interests in joint ventures.

The Company adopted this exemption and did not amend its business acquisitions or investments in associates and joint ventures prior to the transition date and it did not remeasure the values determined at acquisition dates, including the amount of previously recognized goodwill in past acquisitions.

- **Share-based Payments:**

The Company has share-based plans, which it pays to its qualifying employees based on its own shares and those of its subsidiary, Coca-Cola FEMSA. Management decided to apply the optional exemptions established in IFRS 1, where it did not apply IFRS 2, “Share-based Payment” (IFRS 2), (i) to the equity instruments granted before November 7, 2002, (ii) to equity instruments granted after November 7, 2002 and that were earned before the latter of (a) the IFRS transition date and (b) January 1, 2005, and (iii) to liabilities related to share-based payment transactions that were settled before the transition date.

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- **Deemed Cost:**

An entity may individually elect to measure an item of its property, plant and equipment at the transition date to IFRS at its fair value and use that fair value as its deemed cost at that date. In addition, a first-time adopter may elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, of the transition date to IFRS as deemed cost at the date of the revaluation, if the revaluation was, at the date of the revaluation, broadly comparable to: (i) fair value; or (ii) cost or depreciated cost in accordance with IFRS, adjusted to reflect changes in a general or specific price index.

The Company has presented both its property, plant, and equipment and its intangible assets at IFRS historical cost in all countries. In Venezuela this IFRS historical cost represents actual historical cost in the year of acquisition, indexed for inflation in a hyper-inflationary economy based on the provisions of IAS 29.

- **Cumulative Translation Effect:**

A first-time adopter is neither required to recognize translation differences and accumulate these in a separate component of equity nor on a subsequent disposal of a foreign operation, to reclassify the cumulative translation difference for that foreign operation from equity to profit or loss as part of the gain or loss on disposal that would have existed at transition date.

The Company applied this exemption and consequently it reclassified the accumulated translation effect recorded under Mexican FRS to retained earnings and beginning January 1, 2011, it calculates the translation effect of its foreign operations prospectively according to IAS 21, "The Effects of Changes in Foreign Exchange Rates."

- **Borrowing Costs:**

The Company applied the IFRS 1 exemption related to borrowing costs incurred for qualifying assets existing at the transition date based on the similar Company's Mexican FRS accounting policy, and beginning January 1, 2011 it capitalizes eligible borrowing costs in accordance with IAS 23, "Borrowing Costs" (IAS 23).

Recording Effects of the Transition from Mexican FRS to IFRS:

The following disclosures provide a qualitative description of the most significant preliminary effects from the transition of IFRS determined as of the date of the issuance of the consolidated financial statements:

a) Inflation Effects:

According to Mexican FRS, the Mexican peso ceased to be the currency of an inflationary economy in December 2007, as the three year cumulative inflation as of such date did not exceed 26%.

According to IAS 29 "Hyperinflationary Economies" (IAS 29), the last hyperinflationary period for the Mexican peso was in 1998. As a result, the Company eliminated the cumulative inflation recognized within long-lived assets and contributed capital for the Company's Mexican operations, based on Mexican FRS during the years 1999 through 2007, which were not deemed hyperinflationary for IFRS purposes.

For the foreign operations, the cumulative inflation from the acquisition date was eliminated (except in the case of Venezuela, which was deemed a hyperinflationary economy) from the date the Company began to consolidate them.

b) Employee Benefits:

According to NIF D-3 "Employee Benefits" (NIF D-3), a severance provision and the corresponding expenditure, must be recognized based on the experience of the entity in terminating the employment relationship before the retirement date, or if the entity deems to pay benefits as a result of an offer made to employees to encourage a voluntary termination. For IFRS purposes, this provision is only recorded pursuant to IAS 19 (Revised 2011), at the moment the entity has a demonstrable commitment to end the relationship with the employee or to make a bid to encourage voluntary retirement. This is evidenced by a formal plan that describes the characteristics of the termination of employment. Accordingly, at the transition date, the Company derecognized its severance indemnity recorded under Mexican FRS against retained earnings given that no such formal plan exists. A formal plan was not required for recording under Mexican FRS.

IAS 19 (Revised 2011), early adopted by the Company, eliminates the use of the corridor method, which defers the actuarial gains/losses, and requires that they recorded directly within other comprehensive income in each reporting period. The

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standard also eliminates deferral of past service costs and requires entities to record them in comprehensive income in each reporting period. These requirements increased its liability for employee benefits with a corresponding reduction in retained earnings at the transition date.

c) Embedded Derivatives:

For Mexican FRS purposes, the Company recorded embedded derivatives for agreements denominated in foreign currency. Pursuant to the principles set forth in IAS 39, there is an exception for embedded derivatives on those contracts that are denominated in certain foreign currencies, if for example the foreign currency is commonly used in the economic environment in which the transaction takes place. The Company concluded that all of its embedded derivatives fell within the scope of this exception.

Therefore, at the transition date, the Company derecognized all embedded derivatives recognized under Mexican FRS.

d) Stock Bonus Program:

Under Mexican FRS NIF D-3, the Company recognizes its stock bonus program plan offered to certain key executives as a defined contribution plan. IFRS requires that such share-based payment plans be recorded under the principles set forth in IFRS 2, "Share-based Payments." The most significant difference for changing the accounting treatment is related to the period during which compensation expense is recognized, which under NIF D-3 the total amount of the bonus is recorded in the period in which it was granted, while in IFRS 2 it shall be recognized over the vesting period of such awards.

Additionally, the trust that holds the equity shares allocated to executives, is considered to hold plan assets and is not consolidated under Mexican FRS. However, for IFRS SIC 12, "Consolidation - Special Purpose Entities," the Company will consolidate the trust and reflect its own shares in treasury stock and reduce the non-controlling interest for the Coca-Cola FEMSA's shares held by the trust.

e) Deferred Income Taxes:

The IFRS adjustments recognized by the Company had an impact on the calculation of deferred income taxes according to the requirements established by IAS 12, "Income Taxes" (IAS 12).

Furthermore, the Company derecognized a deferred liability recorded in the exchange of shares of FEMSA Cerveza with the Heineken Group. IFRS has an exception for recognition of a deferred tax liability for an investment in a subsidiary if the parent is able to control the timing of the reversal and it is probable that it will not reverse in the foreseeable future.

f) Retained Earnings:

All the adjustments arising from the Company's conversion to IFRS as of the transition date were recorded against retained earnings.

g) Other Differences in Presentation and Disclosures in the Financial Statements:

Generally, IFRS disclosure requirements are more extensive than those of NIF, which will result in increased disclosures about accounting policies, significant judgments and estimates, financial instruments and management risks, among others. The Company will restructure its Income Statement under IFRS to comply with IAS 1, "Presentation of Financial Statements" (IAS 1). In addition, there may be some other differences in presentation.

There are other differences between Mexican FRS and IFRS, however. The Company considers differences mentioned above describe the significant effects.

As a result of the transition to IFRS, the effects as of January 1, 2011 on the principal items of a condensed statement of financial position are described as follow:

	Mexican FRS	IFRS Transition Effects	Preliminary IFRS
Current assets	Ps. 51,460	Ps. (47)	Ps. 51,413
Non-current assets	172,118	(10,078)	162,040
Total assets	223,578	(10,125)	213,453
Current liabilities	30,516	(254)	30,262
Non-current liabilities	40,049	(10,012)	30,037
Total liabilities	70,565	(10,266)	60,299
Total stockholders' equity	153,013	141	153,154

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The information presented above has been prepared in accordance with the standards and interpretations issued and in effect or issued and early adopted by the Company (as a discussed in Note 28 B) at the date of preparation of these consolidated financial statements. The standards and interpretations that are applicable at December 31, 2012, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing the Mexican FRS consolidated financial statements at December 31, 2011. Additionally, the IFRS accounting policies selected by the Company may change as a result of changes in the economic environment or industry trends that are observable after the issuance of this Mexican FRS consolidated financial statements. The information presented herein, does not intend to comply with IFRS, and it should be noted that under IFRS, only one set of financial statements comprising the statements of financial position, comprehensive income, changes in stockholders' equity and cash flows, together with comparative information and explanatory notes can provide a fair presentation of the financial position of the Company, the results of its operations and cash flows.

Note 29. Subsequent Events

On February 27, 2012, the Company's Board of Directors agreed to propose an ordinary dividend of Ps. 6,200 which represents an increase of 35% as compared to the dividend that was paid in 2011. This dividend was approved at the Annual Shareholders meeting on March 23, 2012.

On December 15, 2011, Coca-Cola FEMSA and Grupo Fomento Queretano agreed to merge their beverage divisions. Grupo Fomento Queretano's beverage division operates mainly in the state of Queretaro, as well as in parts of the states of Mexico, Hidalgo and Guanajuato. The merger agreement was approved by both Coca-Cola FEMSA's and Grupo Fomento Queretano's Boards of Directors and is subject to the approval of the Comisión Federal de Competencia, the Mexican antitrust authority. The transaction will involve the issuance of approximately 45.1 million of the Coca-Cola FEMSA's newly issued series L shares, and in addition Coca-Cola FEMSA will assume Ps. 1,221 in net debt. This transaction is expected to be completed in second quarter of 2012.

On February 20, 2012, the Coca-Cola FEMSA entered into a 12-month exclusivity agreement with The Coca-Cola Company to evaluate the potential acquisition of a controlling ownership stake in the bottling operations owned by The Coca-Cola Company in the Philippines. This agreement does not require either party to enter into a transaction, and there can be no assurances that a definitive agreement will be executed.

On February 23, 2012, a wholly-owned subsidiary of Mitsubishi Corporation and Stichting Depositary PGGM Infrastructure Funds, a pension fund managed by PGGM, acquired the 45% interest held by FEMSA on the parent companies of Energía Alterna Istmeña, S. de R.L. de C.V., which we refer to as EAI, and Energía Eólica Mareña, S.A. de C.V., which we refer to as EEM. EAI and EEM are the owners of a 396 megawatt late-stage wind energy project in the south-eastern region of the State of Oaxaca. Certain subsidiaries of FEMSA, FEMSA Comercio and Coca-Cola FEMSA have entered into 20-years wind power supply agreements with ENAI and EEM to purchase energy output produced by such companies. The selling of FEMSA's participation as and investor, will generated a gain on the disposal.

Report of Independent Registered Public Accounting Firm

To: The Executive and Supervisory Board of Heineken N.V.

We have audited the accompanying consolidated statements of financial position of Heineken N.V. and subsidiaries as of December 31, 2011 and 2010 and the related consolidated income statements, consolidated statements of comprehensive income, cash flows and changes in equity, for each of the years in the two-year period ended December 31, 2011. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heineken N.V. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2011, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As discussed in note 2e to the financial statements, the Company has elected to change its method of accounting for employee benefits in 2011 with respect to the recognition of actuarial gains and losses arising from defined benefit plans. After the policy change, the Company recognizes all actuarial gains and losses in the period in which they occur, in other comprehensive income. In prior years, the Company applied the corridor method. The change in accounting policy was recognized retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparatives have been restated.

/s/ KPMG ACCOUNTANTS N.V.
Amsterdam, the Netherlands
February 14, 2012

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Heineken N.V. financial statements | Consolidated Income Statement

	Note	2011	2010*
For the year ended 31 December			
In millions of EUR			
Revenue	5	17,123	16,133
Other income	8	64	239
Raw materials, consumables and services	9	(10,966)	(10,291)
Personnel expenses	10	(2,838)	(2,665)
Amortisation, depreciation and impairments	11	(1,168)	(1,118)
Total expenses		(14,972)	(14,074)
Results from operating activities		2,215	2,298
Interest income	12	70	100
Interest expenses	12	(494)	(590)
Other net finance income/(expenses)	12	(6)	(19)
Net finance expenses		(430)	(509)
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	16	240	193
Profit before income tax		2,025	1,982
Income tax expenses	13	(465)	(403)
Profit		1,560	1,579
Attributable to:			
Equity holders of the Company (net profit)		1,430	1,447
Non-controlling interests		130	132
Profit		1,560	1,579
Weighted average number of shares – basic	23	585,100,381	562,234,726
Weighted average number of shares – diluted	23	586,277,702	563,387,135
Basic earnings per share (EUR)	23	2.44	2.57
Diluted earnings per share (EUR)	23	2.44	2.57

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

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Heineken N.V. financial statements | Consolidated Statement of Comprehensive Income

	<u>Note</u>	<u>2011</u>	<u>2010*</u>
For the year ended 31 December			
<u>In millions of EUR</u>			
Profit		1,560	1,579
Other comprehensive income:			
Foreign currency translation differences for foreign operations	24	(493)	390
Effective portion of change in fair value of cash flow hedges	24	(21)	43
Effective portion of cash flow hedges transferred to profit or loss	24	(11)	45
Ineffective portion of cash flow hedges	24	—	9
Net change in fair value available-for-sale investments	24	71	11
Net change in fair value available-for-sale investments transferred to profit or loss	24	(1)	(17)
Actuarial gains and losses	24/28	(93)	99
Share of other comprehensive income of associates/joint ventures	24	(5)	(29)
Other comprehensive income, net of tax	24	(553)	551
Total comprehensive income		<u>1,007</u>	<u>2,130</u>
Attributable to:			
Equity holders of the Company		884	1,983
Non-controlling interests		123	147
Total comprehensive income		<u>1,007</u>	<u>2,130</u>

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

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Heineken N.V. financial statements | *Consolidated Statement of Financial Position*

	Note	2011	2010*
As at 31 December			
In millions of EUR			
Assets			
Property, plant & equipment	14	7,860	7,687
Intangible assets	15	10,835	10,890
Investments in associates and joint ventures	16	1,764	1,673
Other investments and receivables	17	1,129	1,103
Advances to customers	32	357	449
Deferred tax assets	18	474	542
Total non-current assets		22,419	22,344
Inventories	19	1,352	1,206
Other investments	17	14	17
Trade and other receivables	20	2,260	2,273
Prepayments and accrued income		170	206
Cash and cash equivalents	21	813	610
Assets classified as held for sale	7	99	6
Total current assets		4,708	4,318
Total assets		<u>27,127</u>	<u>26,662</u>
Equity			
Share capital		922	922
Share premium		2,701	2,701
Reserves		498	814
Allotted Share Delivery Instrument		—	666
Retained earnings		5,653	4,829
Equity attributable to equity holders of the Company		9,774	9,932
Non-controlling interests		318	288
Total equity	22	10,092	10,220
Liabilities			
Loans and borrowings	25	8,199	8,078
Tax liabilities		160	178
Employee benefits	28	1,174	1,097
Provisions	30	449	475
Deferred tax liabilities	18	894	991
Total non-current liabilities		10,876	10,819
Bank overdrafts	21	207	132
Loans and borrowings	25	981	862
Trade and other payables	31	4,624	4,265
Tax liabilities		207	241
Provisions	30	140	123
Liabilities classified as held for sale	7	—	—
Total current liabilities		6,159	5,623
Total liabilities		17,035	16,442
Total equity and liabilities		<u>27,127</u>	<u>26,662</u>

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

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Heineken N.V. financial statements | *Consolidated Statement of Cash Flows*

	<u>Note</u>	<u>2011</u>	<u>2010*</u>
For the year ended 31 December			
<u>In millions of EUR</u>			
Operating activities			
Profit		1,560	1,579
Adjustments for:			
Amortisation, depreciation and impairments	11	1,168	1,118
Net interest expenses	12	424	490
Gain on sale of property, plant & equipment, intangible assets and subsidiaries, joint ventures and associates	8	(64)	(239)
Investment income and share of profit and impairments of associates and joint ventures and dividend income on AFS and HFT investments		(252)	(200)
Income tax expenses	13	465	403
Other non-cash items		244	163
Cash flow from operations before changes in working capital and provisions		3,545	3,314
Change in inventories		(145)	95
Change in trade and other receivables		(21)	515
Change in trade and other payables		417	(156)
Total change in working capital		251	454
Change in provisions and employee benefits		(76)	(220)
Cash flow from operations		3,720	3,548
Interest paid		(485)	(554)
Interest received		65	15
Dividend received		137	91
Income taxes paid		(526)	(443)
Cash flow related to interest, dividend and income tax		(809)	(891)
Cash flow from operating activities		<u>2,911</u>	<u>2,657</u>
Investing activities			
Proceeds from sale of property, plant & equipment and intangible assets		101	113
Purchase of property, plant & equipment	14	(800)	(648)
Purchase of intangible assets	15	(56)	(56)
Loans issued to customers and other investments		(127)	(145)
Repayment on loans to customers		64	72
Cash flow (used in)/from operational investing activities		(818)	(664)
Free operating cash flow		2,093	1,993
Acquisition of subsidiaries, net of cash acquired	6	(806)	17
Acquisition/Additions of associates, joint ventures and other investments		(166)	(77)
Disposal of subsidiaries, net of cash disposed of		(9)	270
Disposal of associates, joint ventures and other investments		44	47
Cash flow (used in)/from acquisitions and disposals		(937)	257
Cash flow (used in)/from investing activities		<u>(1,755)</u>	<u>(407)</u>

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

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	<u>Note</u>	<u>2011</u>	<u>2010*</u>
For the year ended 31 December 2011			
<u>In millions of EUR</u>			
Financing activities			
Proceeds from loans and borrowings		1,782	1,920
Repayment of loans and borrowings		(1,587)	(3,127)
Dividends paid		(580)	(483)
Purchase own shares		(687)	(381)
Acquisition of non-controlling interests		(11)	(92)
Disposal of interests without a change in control		43	—
Other		6	(9)
Cash flow (used in)/from financing activities		<u>(1,034)</u>	<u>(2,172)</u>
Net Cash Flow		122	78
Cash and cash equivalents as at 1 January		478	364
Effect of movements in exchange rates		6	36
Cash and cash equivalents as at 31 December	21	<u>606</u>	<u>478</u>

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

In millions of EUR	Note	Share capital	Share Premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	ASDI	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity*
Balance as at 1 January 2010		784	—	(451)	(124)	100	676	(42)	—	4,408	5,351	296	5,647
Policy changes (note 2e)		—	—	—	—	—	—	—	—	(397)	(397)	—	(397)
Restated balance as at 1 January 2010		784	—	(451)	(124)	100	676	(42)	—	4,011	4,954	296	5,250
Other comprehensive income	24	—	—	358	97	(10)	75	—	—	16	536	15	551
Profit		—	—	—	—	—	241	—	—	1,206	1,447	132	1,579
Total comprehensive income		—	—	358	97	(10)	316	—	—	1,222	1,983	147	2,130
Transfer to retained earnings		—	—	—	—	—	(93)	—	—	93	—	—	—
Dividends to shareholders		—	—	—	—	—	—	—	—	(351)	(351)	(138)	(489)
Share issued		138	2,701	—	—	—	—	—	1,026	—	3,865	—	3,865
Purchase/re issuance own/non-controlling shares		—	—	—	—	—	—	(381)	—	—	(381)	—	(381)
Allotted Share Delivery Instrument		—	—	—	—	—	—	362	(360)	(2)	—	—	—
Own shares delivered		—	—	—	—	—	—	6	—	(6)	—	—	—
Share-based payments		—	—	—	—	—	—	—	—	15	15	—	15
Share purchase mandate		—	—	—	—	—	—	—	—	(96)	(96)	—	(96)
Acquisition of non-controlling interests without a change in control		—	—	—	—	—	—	—	—	(57)	(57)	(35)	(92)
Acquisition of non-controlling interests with a change in control		—	—	—	—	—	—	—	—	—	—	20	20
Changes in consolidation		—	—	—	—	—	—	—	—	—	—	(2)	(2)
Balance as at 31 December 2010		922	2,701	(93)	(27)	90	899	(55)	666	4,829	9,932	288	10,220

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

** See note 22 for Hyperinflation impact

In millions of EUR	Note	Share capital	Share Premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	ASDI	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 2011		922	2,701	(93)	(27)	90	899	(55)	666	4,829	9,932	288	10,220
Other comprehensive income **	24	—	—	(482)	(42)	69	—	—	—	(91)	(546)	(7)	(553)
Profit		—	—	—	—	—	253	—	—	1,177	1,430	130	1,560
Total comprehensive income		—	—	(482)	(42)	69	253	—	—	1,086	884	123	1,007
Transfer to retained earnings		—	—	—	—	—	(126)	—	—	126	—	—	—
Dividends to shareholders		—	—	—	—	—	—	—	—	(474)	(474)	(97)	(571)
Purchase/reissuance own/non-controlling shares		—	—	—	—	—	—	(687)	—	—	(687)	(1)	(688)
Allotted Share Delivery Instrument		—	—	—	—	—	—	694	(666)	(28)	—	—	—
Own shares delivered		—	—	—	—	—	—	5	—	(5)	—	—	—
Share-based payments		—	—	—	—	—	—	—	—	11	11	—	11
Share purchase mandate		—	—	—	—	—	—	—	—	96	96	—	96
Acquisition of non-controlling interests without a change in control		—	—	—	—	—	—	—	—	(21)	(21)	(1)	(22)
Disposal of interests without a change in control		—	—	—	—	—	—	—	—	33	33	6	39
Balance as at 31 December 2011		922	2,701	(575)	(69)	159	1,026	(43)	—	5,653	9,774	318	10,092

** See note 22 for Hyperinflation impact

1. Reporting entity

HEINEKEN N.V. (the 'Company') is a company domiciled in the Netherlands. The address of the Company's registered office is Tweede Weteringplantsoen 21, Amsterdam. The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company, its subsidiaries (together referred to as 'HEINEKEN' or the 'Group' and individually as 'HEINEKEN' entities) and HEINEKEN's interest in jointly controlled entities and associates.

A summary of the main subsidiaries, jointly controlled entities and associates is included in note 36 and 16 respectively.

HEINEKEN is primarily involved in the brewing and selling of beer.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code. All standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) effective year-end 2011 have been adopted by the EU, except that the EU carved out certain hedge accounting provisions of IAS 39. The Company does not utilise this carve-out permitted by the EU, as it is not applicable. Consequently, the accounting policies applied by the Company also comply fully with IFRS as issued by the IASB. The Company presents a condensed income statement, using the facility of Article 402 of Part 9, Book 2, of the Dutch Civil Code.

The consolidated financial statements have been prepared by the Executive Board of the Company and authorised for issue on 14 February 2012 and will be submitted for adoption to the Annual General Meeting of Shareholders on 19 April 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Available-for-sale investments
- Derivative financial instruments
- Liabilities for equity-settled share-based payment arrangements
- Long-term interest-bearing liabilities on which fair value hedge accounting is applied
- The defined benefit assets
- The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period.

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These consolidated financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest million unless stated otherwise.

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about assumptions and estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:

Note 6 Acquisitions and disposals of subsidiaries and non-controlling interests

Note 15 Intangible assets

Note 16 Investments in associates and joint ventures

Note 17 Other investments and receivables

Note 18 Deferred tax assets and liabilities

Note 28 Employee benefits

Note 29 Share-based payments – Long-Term Variable award (LTV)

Note 30 Provisions

Note 32 Financial risk management and financial instruments

Note 34 Contingencies.

(e) Changes in accounting policies

Accounting for employee benefits

On 1 January 2011 HEINEKEN changed its accounting policy with respect to the recognition of actuarial gains and losses arising from defined benefit plans. After the policy change, HEINEKEN recognises all actuarial gains and losses arising immediately in other comprehensive income (OCI). In prior years, HEINEKEN applied the corridor method. To the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion was recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss was not recognised. As such, this change means that deferral of actuarial gains and losses within the corridor are no longer applied.

HEINEKEN believes this accounting policy change provides more relevant information as all amounts will be recognised on balance, which is consistent with industry practice and in accordance with the amended reporting standard of Employee Benefits as issued by the International Accounting Standards Board on 16 June 2011.

The change in accounting policy was recognised retrospectively in accordance with IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’, and comparatives have been restated. This results in a EUR15 million and EUR11 million positive impact on ‘Results from operating activities’ and ‘Net profit’ for the year ended 31 December 2010, respectively. The adjustment results in a EUR296 million decline in ‘Total Equity’ for the full year 2010 on Group level. No statement of financial position as at 1 January 2010 has been included. The information included below provides insight in all balance sheet items affected by this change in policy.

The following table summarises the transitional adjustments on implementation of the new accounting policy for the full year 2010:

In millions of EUR	Employee Benefit obligation	Deferred Tax Assets	Retained earnings/profit or loss
Balance as reported at 1 January 2010	634	561	4,408
Effect of policy change on 1 January 2010 retained earnings	548	151	(397)
Restated balance at 1 January 2010	1,182	712	4,011
Balance as reported at 31 December 2010	687	429	5,125
Effect of policy change during 2010 on retained earnings	410	113	(307)
P&L impact for the period 2010	—	—	11
Restated balance at 31 December 2010	<u>1,097</u>	<u>542</u>	<u>4,829</u>

The 2010 amounts as included in the notes to these consolidated financial statements as at and for the year ended 31 December 2010 have been restated as a result of this policy change.

3. Significant accounting policies

General

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by HEINEKEN entities.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred plus the fair value of any previously-held equity interest in the acquiree and the recognised amount of any non-controlling interests in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent considerations are recognised in profit or loss.

(ii) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by HEINEKEN. Control exists when HEINEKEN has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by HEINEKEN. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) Special Purpose Entities (SPEs)

An SPE is consolidated if, based on an evaluation of the substance of its relationship with HEINEKEN and the SPE's risks and rewards, HEINEKEN concludes that it controls the SPE. SPEs controlled by HEINEKEN were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in HEINEKEN receiving the majority of the benefits related to the SPE's operations and net assets, being exposed to the majority of risks incident to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

(v) Loss of control

Upon the loss of control, HEINEKEN derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If HEINEKEN retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Investments in associates and joint ventures

Investments in associates are those entities in which HEINEKEN has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Joint ventures are those entities over whose activities HEINEKEN has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and joint ventures are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include HEINEKEN's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of HEINEKEN, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When HEINEKEN's share of losses exceeds the carrying amount of the associate, including any long-term investments, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that HEINEKEN has an obligation or has made a payment on behalf of the associate or joint venture.

(vii) Transactions eliminated on consolidation

Intra-HEINEKEN balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-HEINEKEN transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted associates and JVs are eliminated against the investment to the extent of HEINEKEN's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of HEINEKEN entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss arising on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale (equity) investments and foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost remain translated into the functional currency at historical exchange rates.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to euro at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to euro at exchange rates approximating the exchange rates ruling at the dates of the transactions. Group entities, with a functional currency being the currency of a hyperinflationary economy, first restate their financial statements in accordance with IAS 29, Financial Reporting in Hyperinflationary Economies (see 'Reporting in hyperinflationary economies' below). The related income, costs and balance sheet amounts are translated at the foreign exchange rate ruling at the balance sheet date.

Foreign currency differences are recognised in other comprehensive income and are presented within equity in the translation reserve. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When HEINEKEN disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When HEINEKEN disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the translation reserve.

The following exchange rates, for the most important countries in which HEINEKEN has operations, were used while preparing these consolidated financial statements:

In EUR	Year-end 2011	Year-end 2010	Average 2011	Average 2010
BRL	0.4139	0.4509	0.4298	0.4289
GBP	1.1972	1.1618	1.1522	1.1657
MXN	0.0554	0.0604	0.0578	0.0598
NGN	0.0049	0.0050	0.0047	0.0051
PLN	0.2243	0.2516	0.2427	0.2503
RUB	0.0239	0.0245	0.0245	0.0248
USD	0.7729	0.7484	0.7184	0.7543

(iii) Reporting in hyperinflationary economies

When the economy of a country in which we operate is deemed hyperinflationary and the functional currency of a Group entity is the currency of that hyperinflationary economy, the financial statements of such Group entities are adjusted so that they are stated in terms of the measuring unit current at the end of the reporting period. This involves restatement of income and expenses to reflect changes in the general price index from the start of the reporting period and, restatement of non-monetary items in the balance sheet, such as P, P & E to reflect current purchasing power as at the period end using a general price index from the date when they were first recognised. Comparative amounts are not adjusted. Any differences arising were recorded in equity on adoption.

(iv) Hedge of net investments in foreign operations

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognised in other comprehensive income to the extent that the hedge is effective and regardless of whether the net investment is held directly or through an intermediate parent. These differences are presented within equity in the translation reserve. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged part of a net investment is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Non-derivative financial instruments

(i) General

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described hereafter.

If HEINEKEN has a legal right to offset financial assets with financial liabilities and if HEINEKEN intends either to settle on a net basis or to realise the asset and settle the liability simultaneously then financial assets and liabilities are presented in the statement of financial position as a net amount.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts form an integral part of HEINEKEN's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting policies for interest income, interest expenses and other net finance income and expenses are discussed in note 3r.

(ii) Held-to-maturity investments

If HEINEKEN has the positive intent and ability to hold debt securities to maturity, they are classified as held-to-maturity. Debt securities are loans and long-term receivables and are measured at amortised cost using the effective interest method, less any impairment losses. Investments held-to-maturity are recognised or derecognised on the day they are transferred to or by HEINEKEN.

(iii) Available-for-sale investments

HEINEKEN's investments in equity securities and certain debt securities are classified as available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein – other than impairment losses (see note 3i(i)), and foreign currency differences on available-for-sale monetary items (see note 3b(i)) – are recognised in other comprehensive income and presented within equity in the fair value reserve. When these investments are derecognised, the relevant cumulative gain or loss in the fair value reserve is transferred to profit or loss.

Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the profit or loss. Available-for-sale investments are recognised or derecognised by HEINEKEN on the date it commits to purchase or sell the investments.

(iv) Investments at fair value through profit or loss

An investment is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Investments are designated at fair value through profit or loss if HEINEKEN manages such investments and makes purchase and sale decisions based on their fair value in accordance with HEINEKEN's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss as incurred.

Investments at fair value through profit or loss are measured at fair value, with changes therein recognised in profit or loss as part of the other net finance income/(expenses). Investments at fair value through profit and loss are recognised or derecognised by HEINEKEN on the date it commits to purchase or sell the investments.

(v) Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Included in non-derivative financial instruments are advances to customers. Subsequently, the advances are amortised over the term of the contract as a reduction of revenue.

(d) Derivative financial instruments (including hedge accounting)**(i) General**

HEINEKEN uses derivatives in the ordinary course of business in order to manage market risks. Generally HEINEKEN seeks to apply hedge accounting in order to minimise the effects of foreign currency, interest rate or commodity price fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

Derivative financial instruments are recognised initially at fair value, with attributable transaction costs recognised in profit or loss as incurred. Derivatives for which hedge accounting is not applied are accounted for as instruments at fair value through profit or loss. When derivatives qualify for hedge accounting, subsequent measurement is at fair value, and changes therein accounted for as described in 3b(iv), 3d(ii) and 3d(iii).

(ii) Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income and presented in the hedging reserve within equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued and the cumulative unrealised gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity, is recognised in profit or loss immediately, or when a hedging instrument is terminated, but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in other comprehensive income and is recognised in accordance with the above-mentioned policy when the transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in other comprehensive income is transferred to the same line of profit or loss in the same period that the hedged item affects profit or loss.

(iii) Fair value hedges

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognised in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to the hedged risk is recognised in profit or loss and adjusts the carrying amount of the hedged item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(iv) Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(e) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(ii) Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares.

When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

(iii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(f) Property, Plant and Equipment (P, P & E)

(i) Owned assets

Items of P, P & E are measured at cost less government grants received (refer (q)), accumulated depreciation (refer (iv)) and accumulated impairment losses (3i(ii)).

Cost comprises the initial purchase price increased with expenditures that are directly attributable to the acquisition of the asset (like transports and non-recoverable taxes). The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use (like an appropriate proportion of production overheads), and the costs of dismantling and removing the items and restoring the site on which they are located. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised as part of the cost of that asset. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of P, P & E.

Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are capitalised and amortised as part of the equipment. For example, purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. In all other cases spare parts are carried as inventory and recognised in profit and loss as consumed. Where an item of P, P & E comprises major components having different useful lives, they are accounted for as separate items (major components) of P, P & E.

Returnable bottles and kegs in circulation are recorded within P, P & E and a corresponding liability is recorded in respect of the obligation to repay the customers' deposits. Deposits paid by customers for returnable items are reflected in the consolidated statement of financial position within current liabilities.

(ii) Leased assets

Leases in terms of which HEINEKEN assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition P, P & E acquired by way of finance lease is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Lease payments are apportioned between the outstanding liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and are not recognised in HEINEKEN's statement of financial position. Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(iii) Subsequent expenditure

The cost of replacing a part of an item of P, P & E is recognised in the carrying amount of the item or recognised as a separate asset, as appropriate, if it is probable that the future economic benefits embodied within the part will flow to HEINEKEN and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of P, P & E are recognised in profit or loss when incurred.

(iv) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other P, P & E is charged to profit or loss on a straight-line basis over the estimated useful lives of items of P, P & E, and major components that are accounted for separately, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets under construction are not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonable certain that HEINEKEN will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative years are as follows:

• Buildings	30 – 40 years
• Plant and equipment	10 – 30 years
• Other fixed assets	3 – 10 years

Where parts of an item of P, P & E have different useful lives, they are accounted for as separate items of P, P & E.

The depreciation methods, residual value as well as the useful lives are reassessed, and adjusted if appropriate, at each financial year-end.

(v) Gains and losses on sale

Net gains on sale of items of P, P & E are presented in profit or loss as other income. Net losses on sale are included in depreciation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the P, P & E.

(g) Intangible assets**(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the cost of the acquisition over HEINEKEN's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill arising on the acquisition of associates and joint ventures is included in the carrying amount of the associate, respectively the joint ventures. In respect of acquisitions prior to 1 October 2003, goodwill is included on the basis of deemed cost, being the amount recorded under previous GAAP. Goodwill on acquisitions purchased before 1 January 2003 has been deducted from equity.

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

Goodwill is measured at cost less accumulated impairment losses (refer accounting policy 3i(ii)). Goodwill is allocated to individual or groups of cash-generating units (CGUs) for the purpose of impairment testing and is tested annually for impairment. Negative goodwill is recognised directly in profit or loss as other income.

(ii) Brands

Brands acquired, separately or as part of a business combination, are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied.

Brands acquired as part of a business combination are valued at fair value based on the royalty relief method. Brands acquired separately are measured at cost.

Strategic brands are well-known international/local brands with a strong market position and an established brand name. Strategic brands are amortised on an individual basis over the estimated useful life of the brand. Other brands are amortised on a portfolio basis per country.

(iii) Customer-related and contract-based intangibles

Customer-related and contract-based intangibles are capitalised if they meet the definition of an intangible asset and the recognition criteria are satisfied. If the amounts are not material these are included in the brand valuation. The relationship between brands and customer-related intangibles is carefully considered so that brands and customer-related intangibles are not both recognised on the basis of the same cash flows.

Customer-related and contract-based intangibles acquired as part of a business combination are valued at fair value. Customer-related and contract-based intangibles acquired separately are measured at cost.

Customer-related and contract-based intangibles are amortised over the remaining useful life of the customer relationships or the period of the contractual arrangements.

(iv) Software, research and development and other intangible assets

Purchased software is measured at cost less accumulated amortisation (refer (vi)) and impairment losses (refer accounting policy 3i(ii)). Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in profit or loss when incurred.

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products, software and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and HEINEKEN intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation (refer (vi)) and accumulated impairment losses (refer accounting policy 3i(ii)).

Other intangible assets that are acquired by HEINEKEN and have finite useful lives, are measured at cost less accumulated amortisation (refer (vi)) and impairment losses (refer accounting policy 3i(ii)). Expenditure on internally generated goodwill and brands is recognised in profit or loss when incurred.

(v) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

(vi) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Intangible assets with a finite life are amortised on a straight-line basis over their estimated useful lives, other than goodwill, from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

• Strategic brands	40 – 50 years
• Other brands	15 – 25 years
• Customer-related and contract-based intangibles	5 – 20 years
• Software	3 – 7 years
• Capitalised development costs	3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(vii) Gains and losses on sale

Net gains on sale of intangible assets are presented in profit or loss as other income. Net losses on sale are included in amortisation. Net gains and losses are recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be estimated reliably, and there is no continuing management involvement with the intangible assets.

(h) Inventories

(i) General

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(ii) Finished products and work in progress

Finished products and work in progress are measured at manufacturing cost based on weighted averages and takes into account the production stage reached. Costs include an appropriate share of direct production overheads based on normal operating capacity.

(iii) Other inventories and spare parts

The cost of other inventories is based on weighted averages. Spare parts are valued at the lower of cost and net realisable value. Value reductions and usage of parts are charged to profit or loss. Spare parts that are acquired as part of an equipment purchase and only to be used in connection with this specific equipment are initially capitalised and depreciated as part of the equipment.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and presented in the fair value reserve in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of HEINEKEN's non-financial assets, other than inventories (refer accounting policy (h) and deferred tax assets (refer accounting policy (s))), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'CGU').

For the purpose of impairment testing, goodwill acquired in a business combination, is allocated to each of the acquirer's CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored on regional, sub regional or country level depending on the characteristics of the acquisition, the synergies to be achieved and the level of integration.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate and joint venture is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate and joint venture is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

(j) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with HEINEKEN's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and P, P & E once classified as held for sale are not amortised or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

(k) Employee benefits**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan (pension plan) under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employee renders the service are discounted to their present value.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan (pension plan) that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

HEINEKEN's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at balance sheet date on AA-rated bonds that have maturity dates approximating the terms of HEINEKEN's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculations are performed annually by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to HEINEKEN, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

HEINEKEN recognises all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

(iii) Other long-term employee benefits

HEINEKEN's net obligation in respect of long-term employee benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at balance sheet date on high-quality credit-rated bonds that have maturity dates approximating the terms of HEINEKEN's obligations. The obligation is calculated using the projected unit credit method. Any actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

(iv) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Termination benefits are recognised as an expense when HEINEKEN is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if HEINEKEN has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(v) Share-based payment plan (LTV)

As from 1 January 2005 HEINEKEN established a share plan for the Executive Board and as from 1 January 2006 HEINEKEN also established a share plan for senior management (see note 29).

The grant date fair value of the share rights granted is recognised as personnel expenses with a corresponding increase in equity (equity-settled), over the period that the employees become unconditionally entitled to the share rights. The costs of the share plan for both the Executive Board and senior management members are spread evenly over the performance period.

At each balance sheet date, HEINEKEN revises its estimates of the number of share rights that are expected to vest, for the 100 per cent internal performance conditions of the share plan 2010 – 2012 and the share plan 2011– 2013 of the senior management members and the Executive Board and for the 75 per cent internal performance conditions of the share plan 2008– 2010 and 2009 – 2011 of the senior management members. It recognises the impact of the revision of original estimates – only applicable for internal performance conditions, if any, in profit or loss, with a corresponding adjustment to equity. The fair value for the share plan 2009 – 2011 is measured at grant date using the Monte Carlo model taking into account the terms and conditions of the plan.

(vi) Matching share entitlement

As from 21 April 2011 HEINEKEN established a matching share entitlement for the Executive Board. The grant date fair value of the matching shares is recognised as personnel expenses in the income statement as it is deemed an equity settled incentive.

(vii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term benefits if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(I) Provisions**(i) General**

A provision is recognised if, as a result of a past event, HEINEKEN has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures to be expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as part of the net finance expenses.

(ii) Restructuring

A provision for restructuring is recognised when HEINEKEN has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for. The provision includes the benefit commitments in connection with early retirement and redundancy schemes.

(iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by HEINEKEN from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, HEINEKEN recognises any impairment loss on the assets associated with that contract.

(iv) Other

The other provisions, not being provisions for restructuring or onerous contracts, consist mainly of surety and guarantees, litigation and claims and environmental provisions.

(m) Loans and borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Loans and borrowings included in a fair value hedge are stated at fair value in respect of the risk being hedged.

Loans and borrowings for which the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date, are classified as non-current liabilities.

(n) Revenue**(i) Products sold**

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of sales tax, excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit or loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, and there is no continuing management involvement with the products.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Other revenue

Other revenues are proceeds from royalties, rental income, pub management services and technical services to third parties, net of sales tax. Royalties are recognised in profit or loss on an accrual basis in accordance with the substance of the relevant agreement. Rental income, pub management services and technical services are recognised in profit or loss when the services have been delivered.

(o) Other income

Other income are gains from sale of P, P & E, intangible assets and (interests in) subsidiaries, joint ventures and associates, net of sales tax. They are recognised in profit or loss when ownership has been transferred to the buyer.

(p) Expenses**(i) Operating lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.

(ii) Finance lease payments

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(q) Government grants

Government grants are recognised at their fair value when it is reasonably assured that HEINEKEN will comply with the conditions attaching to them and the grants will be received.

Government grants relating to P, P & E are deducted from the carrying amount of the asset.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(r) Interest income, interest expenses and other net finance income and expenses

Interest income and expenses are recognised as they accrue in profit or loss, using the effective interest method unless collectability is in doubt.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Other net finance income and expenses comprises dividend income, gains and losses on the disposal of available-for-sale investments, changes in the fair value of investments designated at fair value through profit or loss and held for trading investments, changes in fair value of hedging instruments that are recognised in profit or loss, unwinding of the discount on provisions and impairment losses recognised on investments. Dividend income is recognised in profit or loss on the date that HEINEKEN's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Foreign currency gains and losses are reported on a net basis in the other net finance income and expenses.

(s) Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected income tax payable or receivable in respect of taxable profit or loss for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to income tax payable in respect of profits of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Deferred tax assets and liabilities are not recognised for the following temporary differences: (i) the initial recognition of goodwill, (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, (iii) differences relating to investments in subsidiaries, joint ventures and associates resulting from translation of foreign operations and (iv) differences relating to investments in subsidiaries and joint ventures to the extent that the Company is able to control the timing of the reversal of the temporary difference and they will probably not reverse in the foreseeable future.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

(u) Earnings per share

HEINEKEN presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period including the weighted average of outstanding ASDI, adjusted for the weighted average of own shares purchased in the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding including weighted average of outstanding ASDI, adjusted for the weighted average of own shares purchased in the year, for the effects of all dilutive potential ordinary shares, which comprise share rights granted to employees.

(v) Cash flow statement

The cash flow statement is prepared using the indirect method. Changes in balance sheet items that have not resulted in cash flows such as translation differences, fair value changes, equity-settled share-based payments and other non-cash items, have been eliminated for the purpose of preparing this statement. Assets and liabilities acquired as part of a business combination are included in investing activities (net of cash acquired). Dividends paid to ordinary shareholders are included in financing activities. Dividends received are classified as operating activities. Interest paid is also included in operating activities.

(w) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Board, who is considered to be the Group's chief operating decision maker. An operating segment is a component of HEINEKEN that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of HEINEKEN's other components. All operating segments' operating results are reviewed regularly by the Executive Board to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment results, assets and liabilities that are reported to the Executive Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated result items comprise net finance expenses and income tax expenses. Unallocated assets comprise current other investments and cash call deposits.

Segment capital expenditure is the total cost incurred during the period to acquire P, P & E, and intangible assets other than goodwill.

(x) Emission rights

Emission rights are related to the emission of CO₂, which relates to the production of energy. These rights are freely tradable. Bought emission rights and liabilities due to production of CO₂ are measured at cost, including any directly attributable expenditure. Emission rights received for free are also recorded at cost, i.e. with a zero value.

(y) Recently issued IFRS**(i) Standards effective in 2011 and reflected in these consolidated financial statements**

- IAS 19 Pensions and IFRIC 14 (amendments effective 1 January 2011) – The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
- IFRS 7 Financial Instruments: Disclosure (amendments effective 1 January 2011). The amendments add an explicit statement that qualitative disclosure should be made to better enable users to evaluate an entity's exposure to risk arising from financial instruments. These amendments are reflected in disclosure note 32 Financial Instruments.

Other standards and interpretations effective from 1 January 2011 did not have a significant impact on the Company.

(ii) New relevant standards and interpretations not yet adopted

The following new standards and interpretations to existing standards relevant to HEINEKEN are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of HEINEKEN, except for IAS 19 Employee benefits and IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2013 consolidated financial statements. HEINEKEN is in the process of evaluating the impact of the applicability of the new standards. HEINEKEN does not plan to early adopt these standards and the extent of the impact has not been determined:

- IAS 1 Presentation of Financial Statements was amended in June 2011 for Presentation of Items of Other Comprehensive Income with an effective date of 1 July 2012.
- IAS 12 Deferred Tax: Recovery of Underlying Assets. The amendments introduce an exception to the general measurement requirements of IAS 12 Income Taxes in respect of investment properties measured at fair value. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset.
- IAS 19 Employee Benefits was amended. The standard is effective for annual periods beginning on or after 1 January 2013, but has not yet been endorsed by the EU. HEINEKEN is in the process of evaluating the impact of the applicability of the new standard.
- IAS 27 Separate financial statements contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The standard is effective for annual periods beginning on or after 1 January 2013.
- IAS 28 Investments in Associates and Joint Ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard is effective for annual periods beginning on or after 1 January 2013. This amendment is in line with the new IFRS 11, which no longer gives entities the choice in accounting treatment for joint ventures, only the equity method is allowed. HEINEKEN already applied the equity method since 2008.
- IFRS 7 Disclosures – Transfers of Financial Assets. The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for:
 - financial assets that are not derecognised in their entirety; and
 - financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.
- IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after 1 January 2015, but has not yet been endorsed by the EU. HEINEKEN is in the process of evaluating the impact of the applicability of the new standard.
- IFRS 10 Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS supersedes IAS 27 Consolidated and separate financial statements and SIC-12 Consolidation – Special purpose entities and is effective for annual periods beginning on or after 1 January 2013.
- IFRS 11 Joint arrangements establish principles for financial reporting by parties to a joint arrangement. This IFRS supersedes IAS 31 Interest in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary contributions by ventures and is effective for annual periods beginning on or after 1 January 2013. Under IFRS 11 the structure of the arrangement is no longer the only determinant for the accounting treatment and entities do no longer have a choice in accounting treatment. HEINEKEN is in the process of evaluating the impact of the applicability of the new standard.
- IFRS 12 Disclosure of interests in other entities applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The IFRS is effective for annual periods beginning on or after 1 January 2013. This IFRS integrates and make consistent the disclosure requirements for all entities mentioned above.
- IFRS 13 Fair value measurement defines fair value; sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurements. The IFRS is to be applied for annual periods beginning on or after 1 January 2013. The IFRS explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting.

4. Determination of fair values**(i) General**

A number of HEINEKEN's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values or for the purpose of impairment testing is disclosed in the notes specific to that asset or liability.

(ii) Property, plant and equipment

The fair value of P, P & E recognised as a result of a business combination is based on the quoted market prices for similar items when available and replacement cost when appropriate.

(iii) Intangible assets

The fair value of brands acquired in a business combination is based on the 'relief of royalty' method. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iv) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(v) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date, or if unquoted, determined using an appropriate valuation technique. The fair value of held-to-maturity investments is determined for disclosure purposes only. In case the quoted price does not exist at the date of exchange or in case the quoted price exists at the date of exchange but was not used as the cost, the investments are valued indirectly based on discounted cash flow models.

(vi) Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(vii) Derivative financial instruments

The fair value of derivative financial instruments is based on their listed market price, if available. If a listed market price is not available, then fair value is in general estimated by discounting the difference between the cash flows based on contractual price and the cash flows based on current price for the residual maturity of the contract using a risk-free interest rate (based on inter-bank interest rates).

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(viii) Non-derivative financial instruments

Fair value, which is determined for disclosure purposes or when fair value hedge accounting is applied, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

5. Operating segments

HEINEKEN distinguishes the following six reportable segments:

- Western Europe
- Central and Eastern Europe
- The Americas
- Africa and the Middle East
- Asia Pacific
- Head Office and Other/eliminations.

The first five reportable segments as stated above are the Group's business regions. These business regions are each managed separately by a Regional President. The Regional President is directly accountable for the functioning of the segment's assets, liabilities and results of the region and reports regularly to the Executive Board (the chief operating decision maker) to discuss operating activities, regional forecasts and regional results. The Head Office operating segment falls directly under the responsibility of the Executive Board. For each of the six reportable segments, the Executive Board reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in the table on the next page. Performance is measured based on EBIT (beia), as included in the internal management reports that are reviewed by the Executive Board. EBIT (beia) is defined as earnings before interest and taxes and net finance expenses, before exceptional items and amortisation of brands and customer relationships. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. EBIT (beia) is used to measure performance as management believes that this measurement is the most relevant in evaluating the results of these regions.

HEINEKEN has multiple distribution models to deliver goods to end customers. There is no reliance on major clients. Deliveries to end consumers are done in some countries via own wholesalers or own pubs, in other markets directly and in some others via third parties. As such, distribution models are country specific and on consolidated level diverse. In addition, these various distribution models are not centrally managed or monitored. Consequently, the Executive Board is not allocating resources and assessing the performance based on business type information and therefore no segment information is provided on business type.

Inter-segment pricing is determined on an arm's-length basis. As net finance expenses and income tax expenses are monitored on a consolidated level (and not on an individual regional basis) and regional presidents are not accountable for that, net finance expenses and income tax expenses are not provided per reportable segment.

Starting 1st of January 2011 Empaque (our Mexican packaging business) was transferred from the America's region to Head Office as this managerial resides under Global Supply Chain situated in Head Office. Also, in 2011 HEINEKEN reallocated certain management costs from regions to Head Office reflecting a change in the Company's operating framework from regional to global reporting lines for certain roles within global functions. As a consequence the comparative figures have been restated.

Information about reportable segments

In millions of EUR	Note	Western Europe		Central and Eastern Europe		The Americas	
		2011	2010*	2011	2010*	2011	2010*
Revenue							
Third party revenue ¹		7,158	7,284	3,209	3,130	4,002	3,284
Interregional revenue		594	610	20	13	27	12
Total revenue		<u>7,752</u>	<u>7,894</u>	<u>3,229</u>	<u>3,143</u>	<u>4,029</u>	<u>3,296</u>
Other income		48	71	7	8	1	—
Results from operating activities		820	786	318	345	493	429
Net finance expenses							
Share of profit of associates and joint ventures and impairments thereof		3	3	17	21	77	75
Income tax expenses							
Profit							
Attributable to:							
Equity holders of the Company (net profit)							
Non-controlling interest							
EBIT reconciliation							
EBIT		823	789	335	366	570	504
EBIT (beia) ²	27	139	136	11	12	85	96
EBIT (beia)		<u>962</u>	<u>925</u>	<u>346</u>	<u>378</u>	<u>655</u>	<u>600</u>
Beer volumes²							
Consolidated beer volume		45,380	45,394	45,377	42,237	50,497	37,843
Joint Ventures' volume		—	—	7,303	7,229	9,663	9,195
Licences		300	284	—	—	65	173
Group volume		<u>45,680</u>	<u>45,678</u>	<u>52,680</u>	<u>49,466</u>	<u>60,225</u>	<u>47,211</u>
Current segment assets							
Other Non-current segment assets		1,843	2,104	985	961	1,045	1,011
Investment in associates and joint ventures		8,186	8,019	3,365	3,622	5,619	5,965
Total segment assets		23	28	165	134	711	758
Total segment assets							
Unallocated assets		10,052	10,151	4,515	4,717	7,375	7,734
Total assets							
Segment liabilities		<u>3,723</u>	<u>3,444</u>	<u>1,160</u>	<u>1,145</u>	<u>1,068</u>	<u>987</u>
Unallocated liabilities							
Total equity							
Total equity and liabilities							
Purchase of P, P & E		215	205	170	158	199	117
Acquisition of goodwill		—	4	1	—	4	1,495
Purchases of intangible assets		11	5	9	4	20	24
Depreciation of P, P & E		343	381	234	253	183	131
Impairment and reversal of impairment of P, P & E		—	1	2	9	(5)	—
Amortisation intangible assets		100	90	18	22	93	69
Impairment intangible assets		—	15	3	1	—	—

¹ Includes other revenue of EUR463 million in 2011 and EUR439 million in 2010.

² For definition see 'Glossary' Note that these are both non GAAP measures and therefore un-audited.

Information about reportable segments continued

	Africa and the Middle East		Asia Pacific		Head Office & Other/ Eliminations		Consolidated	
	2011	2010*	2011	2010*	2011	2010*	2011	2010*
Revenue								
Third party revenue	2,223	1,982	216	206	315	247	17,123	16,133
Interregional revenue	—	6	—	—	(641)	(641)	—	—
Total revenue	2,223	1,988	216	206	(326)	(394)	17,123	16,133
Other income	3	—	5	158	—	2	64	239
Results from operating activities	533	531	64	203	(13)	4	2,215	2,298
Net finance expenses							(430)	(509)
Share of profit of associates and joint ventures and impairments thereof	35	28	112	79	(4)	(13)	240	193
Income tax expenses							(465)	(403)
Profit							1,560	1,579
Attributable to:								
Equity holders of the Company (net profit)							1,430	1,447
Non-controlling interest							130	132
Non-controlling interest							1,560	1,579
EBIT reconciliation								
EBIT	568	559	176	282	(17)	(9)	2,455	2,491
EBIT (beia)	2	1	—	(158)	5	45	242	132
EBIT (beia)	570	560	176	124	(12)	36	2,697	2,623
Beer volumes								
Consolidated beer volume	22,029	19,070	1,309	1,328	—	—	164,592	145,872
Joint Ventures' volume	5,706	5,399	24,410	22,181	—	—	47,082	44,004
Licences	1,093	1,204	769	806	—	—	2,227	2,467
Group volume	28,828	25,673	26,488	24,315	—	—	213,901	192,343
Current segment assets	854	639	91	74	(124)	(536)	4,694	4,253
Other Non-current segment assets	1,867	1,272	2	12	1,143	1,242	20,182	20,132
Investment in associates and joint ventures	272	262	536	507	57	(16)	1,764	1,673
Total segment assets	2,993	2,173	629	593	1,076	690	26,640	26,058
Unallocated assets							487	604
Total assets							27,127	26,662
Segment liabilities	653	532	36	33	508	625	7,148	6,766
Unallocated liabilities							9,887	9,676
Total equity							10,092	10,220
Total equity and liabilities							27,127	26,662
Purchase of P, P & E	202	163	—	1	14	4	800	648
Acquisition of goodwill	282	1	—	—	—	248	287	1,748
Purchases of intangible assets	—	9	—	—	16	14	56	56
Depreciation of P, P & E	140	100	—	1	36	27	936	893
Impairment and reversal of impairment of P, P & E	3	2	—	—	—	2	—	14
Amortisation intangible assets	6	4	—	—	12	7	229	192
Impairment intangible assets	—	—	—	—	—	—	3	16

* Comparatives have been adjusted due to the transfer of Empaque causing the move of an amount of EUR54 million of EBIT from the Americas region to Head Office; the centralisation of the Regional Head Offices resulting in a shift of EUR43 million EBIT from regions to Head Office; the policy change in Employee Benefits, causing an increase of EUR15 million in EBIT (EUR11 million in region Western Europe and EUR4 million in the Americas region)

6. Acquisitions and disposals of subsidiaries and non-controlling interests

Acquisition of the beer operations of Sona Group

On 12 January 2011, HEINEKEN announced that it had acquired from Lewiston Investments SA ('Seller') two holding companies which together own the Sona brewery group. The two holding companies had controlling interests in Sona Systems Associates Business Management Limited ('Sona Systems'), which held certain assets of Sona Breweries Plc ('Sona') and International Beer and Beverages (Nigeria) Limited ('IBBI'), Champion Breweries Plc ('Champion'), Benue Brewery Limited ('Benue') and Life Brewery Company Limited ('Life') (together referred to as the 'acquired businesses').

Due to the integration of the newly acquired businesses with our existing activities separate financial information on Sona activities is not available anymore.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

In millions of EUR*	
Property, plant & equipment	162
Intangible assets	56
Other investments	1
Inventories	19
Trade and other receivables	2
Cash and cash equivalents	2
Assets acquired	<u>242</u>

In millions of EUR*	
Employee benefits	6
Provisions	2
Deferred tax liabilities	44
Bank overdraft	—
Loans and borrowings (current)	76
Tax liabilities (current)	12
Trade and other current liabilities	21
Liabilities assumed	<u>161</u>
Total net identifiable assets	<u>81</u>

Consideration transferred	289
Recognition indemnification receivable	(12)
Non-controlling interests	(1)
Net identifiable assets acquired	(81)
Goodwill on acquisition	<u>195</u>

* Amounts were converted into euros at the rate of EUR/NGN192.6782. Additionally, certain amounts provided in US dollar were converted into euros based on the following exchange rate EUR/USD 1.2903.

The purchase price accounting for the acquired businesses is prepared on a final basis. The outcome indicates goodwill of EUR195 million. The derived goodwill includes synergies mainly related to the available production capacity.

Goodwill has been allocated to Nigeria in the Africa and Middle East region and is held in NGN. The rationale for the allocation is that the acquisition provides access to the Nigerian market: access to additional capacity, consolidate market share within a fast-growing market and improved profitability through synergy. The entire amount of goodwill is not expected to be tax deductible.

Between HEINEKEN and the Seller certain indemnifications were agreed on, that primarily relate to tax and legal matters existing at the date of acquisition. Our assessment of these contingencies indicates an indemnification receivable of EUR12 million that is considered an included element of the business combination. The purchase price for the acquired businesses was based on an estimate of the net debt and working capital position of the acquired businesses as at 11 January 2011 (the date of the completion of the acquisition). HEINEKEN and the Seller have determined the exact net debt and working capital position of the acquired businesses as at 11 January 2011 by reference to agreed accounting principles and there will be no adjustment to the final purchase price. Non-controlling interests are recognised based on their proportional interest in the net identifiable assets acquired of Champion, Benue and Life for a total of EUR1 million.

In this year acquisition-related costs of EUR1 million have been recognised in the income statement.

Acquisition of two breweries in Ethiopia

On 11 August 2011, HEINEKEN announced that it had acquired from the government of the Federal Democratic Republic of Ethiopia ('Seller') two breweries named Bedele and Harar (together referred to as the 'acquired business').

The acquired businesses contributed revenue of EUR13 million and results from operating activities of EUR1.5 million (EBIT) for the five-month period from 4 August 2011 to 31 December 2011. For the financial statements of HEINEKEN the additional 8 months would not have been material.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

In millions of EUR*

Property, plant & equipment	27
Intangible assets	8
Inventories	8
Trade and other receivables	3
Cash and cash equivalents	1
Assets acquired	<u>47</u>

In millions of EUR*

Deferred tax liabilities	8
Trade and other current liabilities	12
Liabilities assumed	<u>20</u>
Total net identifiable assets	<u>27</u>

Consideration transferred	115
Net identifiable assets acquired	(27)
Goodwill on acquisition	<u>88</u>

* Amounts were converted into euros at the rate of EUR/ETB 24,492 and EUR/USD 1.426 for the statement of financial position.

The purchase price accounting for the acquired business is prepared on a provisional basis. The outcome indicates goodwill of EUR88 million. The derived goodwill includes synergies mainly related to market access and the available production capacity.

Goodwill has been allocated to Ethiopia in the Africa and Middle East region and is held in ETB. The rationale for the allocation is that the acquisition provides access to the Ethiopian market: access to additional capacity, consolidate market share within a fast-growing market and improved profitability through synergy. The entire amount of goodwill is not expected to be tax deductible.

Acquisition-related costs of EUR2.5 million have been recognised in the income statement for the period ended 31 December 2011.

Acquisition of pubs in the UK

On 2 December 2011, HEINEKEN announced that it had acquired from The Royal Bank of Scotland ('RBS') ('Seller') the Galaxy Pub Estate ('Galaxy') in the UK (referred to as the 'acquired business'). The following summarises the major classes of consideration transferred, and the recognised amounts of assets and assumed liabilities at the acquisition date. Management agreements that were in place were settled upon acquisition.

<i>In millions of EUR*</i>	
Property, plant & equipment	441
Cash and cash equivalents	—
Assets acquired	<u>441</u>
<i>In millions of EUR*</i>	
Liabilities assumed	—
Total net identifiable assets	<u>441</u>
Consideration transferred	480
Settlement of pre-existing relationship	(39)
Net identifiable assets acquired	(441)
Goodwill on acquisition	<u>—</u>

* Amounts were converted into euros at the rate of EUR/GBP 0.859 for the statement of financial position.

The purchase price accounting for the acquired business is prepared on a provisional basis. The outcome indicates no goodwill as the fair value of the assets acquired approximates the consideration transferred. The rationale for the acquisition is to further drive volume growth and to strengthen the leading position in the UK beer and cider market. The acquisition creates a strong platform from which HEINEKEN is building leadership in the high value UK on-trade channel and will mainly impacts net result. The early amortisation and termination of associated contracts under the acquisition gave rise to a one-off, pre-tax expense of EUR36 million.

Acquisition related cost of EUR3 million have been recognised in the income statement for the period ended 31 December 2011.

Provisional accounting FEMSA acquisition in 2010

The FEMSA acquisition accounting has been concluded during the first half year of 2011. A final adjustment was made to provisional accounting for the FEMSA acquisition. Total impact resulted in an increase of goodwill of EUR4 million, the comparatives have not been restated. The adjustment resulted from the filing of a tax return in March 2011, which was EUR6 million lower, a negative impact of EUR12 million due to a legal provision and recognition of certain employee benefits for EUR10 million. In 2010 FEMSA results were included from 1 May 2010 onwards (8 months) and have been fully consolidated in 2011 (12 months).

Disposals

Disposal of interest without losing control

On 12 May 2010 HEINEKEN acquired an additional interest in Commonwealth Brewery Limited (CBL) and Burns House Limited (BHL) situated in the Bahamas, increasing its ownership to 100 per cent in both entities. This acquisition was subject to government approval that 25 per cent of the combined entities would be disposed of. During the period which ended 31 December 2011, HEINEKEN disposed of 25 per cent of its 100 per cent interest in CBL (which had acquired 100 per cent of BHL prior to this), for an amount of EUR43 million through an initial public offering (IPO) in the Bahamas. As a result, its ownership decreased to 75 per cent. After the disposal of this non-controlling interest, HEINEKEN maintains a controlling interest in CBL. There is no impact on net result, the impact is recognised in equity.

7. Assets (or disposal groups) classified as held for sale

Other assets classified as held for sale represent land and buildings following the commitment of HEINEKEN to a plan to sell certain land and buildings in the UK and our associate in Kazakhstan. Efforts to sell these assets have commenced and are expected to be completed during 2012.

Assets classified as held for sale

<i>In millions of EUR</i>		<u>2011</u>	<u>2010</u>
Current assets		—	—
Non-current assets		99	6
		<u>99</u>	<u>6</u>

8. Other income

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Net gain on sale of property, plant & equipment	35	37
Net gain on sale of intangible assets	24	13
Net gain on sale of subsidiaries, joint ventures and associates	5	189
	<u>64</u>	<u>239</u>

In 2010 HEINEKEN transferred in total a 78.3 per cent stake in PT Multi Bintang Indonesia (MBI) and HEINEKEN's 87 per cent stake in Grande Brasserie de Nouvelle-Caledonie S.A. (GBNC) to its JV Asia Pacific Breweries (APB). As a result of the transaction a gain of EUR157 million before tax was recognised in net gain on sale of subsidiaries, joint ventures and associates.

9. Raw materials, consumables and services

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Raw materials	1,576	1,474
Non-returnable packaging	2,075	1,863
Goods for resale	1,498	1,655
Inventory movements	(8)	(8)
Marketing and selling expenses	2,186	2,072
Transport expenses	1,056	979
Energy and water	525	442
Repair and maintenance	417	375
Other expenses	1,641	1,439
	<u>10,966</u>	<u>10,291</u>

Other expenses include rentals of EUR241 million (2010: EUR224 million), consultant expenses of EUR166 million (2010: EUR126 million), telecom and office automation of EUR159 million (2010: EUR156 million), travel expenses of EUR137 million (2010: EUR120 million) and other fixed expenses of EUR938 million (2010: EUR813 million).

10. Personnel expenses

<u>In millions of EUR</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Wages and salaries		1,891	1,787
Compulsory social security contributions		333	317
Contributions to defined contribution plans		24	16
Expenses related to defined benefit plans	28	56	89
Increase in other long-term employee benefits		11	9
Equity-settled share-based payment plan	29	11	15
Other personnel expenses		512	432
		<u>2,838</u>	<u>2,665</u>

Restructuring costs in Spain for an amount of EUR53 million are included in other personnel expenses.

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The average number of full-time equivalent (FTE) employees during the year was:

	<u>2011</u>	<u>2010</u>
The Netherlands	4,032	3,861
Other Western Europe	14,707	15,751
Central and Eastern Europe	17,424	18,043
The Americas	16,414	17,164
Africa and the Middle East	11,396	10,607
Asia Pacific	279	304
HEINEKEN N.V. and subsidiaries	<u>64,252</u>	<u>65,730</u>

11. Amortisation, depreciation and impairments

<u>In millions of EUR</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Property, plant & equipment	14	936	907
Intangible assets	15	232	208
Impairment on available-for-sale assets		—	3
		<u>1,168</u>	<u>1,118</u>

12. Net finance income and expenses

Recognised in profit or loss

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Interest income	70	100
Interest expenses	(494)	(590)
Dividend income on available-for-sale investments	2	1
Dividend income on investments held for trading	11	7
Net gain/(loss) on disposal of available-for-sale investments	1	—
Net change in fair value of derivatives	96	(75)
Net foreign exchange gain/(loss)	(107)	61
Impairment losses on available-for-sale investments	—	(3)
Unwinding discount on provisions	(7)	(7)
Other net financial income/(expenses)	(2)	(3)
Other net finance income/(expenses)	(6)	(19)
Net finance income/(expenses)	<u>(430)</u>	<u>(509)</u>

Recognised in other comprehensive income

<u>In millions of EUR</u>	<u>2011</u>	<u>2010*</u>
Foreign currency translation differences for foreign operations	(493)	390
Effective portion of changes in fair value of cash flow hedges	(21)	43
Effective portion of cash flow hedges transferred to profit or loss	(11)	45
Ineffective portion of cash flow hedges transferred to profit or loss	—	9
Net change in fair value of available-for-sale investments	71	11
Net change in fair value available-for-sale investments transferred to profit or loss	(1)	(17)
Actuarial (gains) and losses	(93)	99
Share of other comprehensive income of associates/joint ventures	(5)	(29)
	(553)	551
Recognised in:		
Fair value reserve	69	(10)
Hedging reserve	(42)	97
Translation reserve	(482)	358
Other	(98)	106
	(553)	551

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

The negative impact of foreign currency translation differences for foreign operations in other comprehensive income is mainly due to the impact of devaluation of the Mexican peso on the net assets and goodwill measured in Mexican peso of total EUR295 million. Remaining impact is related to the depreciation of the Polish zloty, the Chilean peso, Nigerian naira and Belarusian ruble, partly offset by the revaluation of the US dollar and the British pound.

13. Income tax expense

Recognised in profit or loss

<u>In millions of EUR</u>	<u>2011</u>	<u>2010*</u>
Current tax expense		
Current year	502	502
Under/(over) provided in prior years	(26)	52
	476	554
Deferred tax expense		
Origination and reversal of temporary differences	17	(19)
Previously unrecognised deductible temporary differences	(9)	(2)
Changes in tax rate	1	3
Utilisation/(benefit) of tax losses recognised	(19)	(39)
Under/(over) provided in prior years	(1)	(94)
	(11)	(151)
Total income tax expense in profit or loss	465	403

Reconciliation of the effective tax rate

<u>In millions of EUR</u>	<u>2011</u>		<u>2010*</u>	
Profit before income tax	2,025		1,982	
Share of net profit of associates and joint ventures and impairments thereof	(240)		(193)	
Profit before income tax excluding share of profit of associates and joint ventures (inclusive impairments thereof)	1,785		1,789	
	%	<u>2011</u>	%	<u>2010*</u>
Income tax using the Company's domestic tax rate	25.0	446	25.5	456
Effect of tax rates in foreign jurisdictions	3.5	62	1.9	34
Effect of non-deductible expenses	3.2	58	4.0	72
Effect of tax incentives and exempt income	(6.0)	(107)	(8.2)	(146)
Recognition of previously unrecognised temporary differences	(0.5)	(9)	(0.1)	(2)
Utilisation or recognition of previously unrecognised tax losses	(0.3)	(5)	(1.2)	(21)
Unrecognised current year tax losses	1.0	18	0.8	15
Effect of changes in tax rate	0.1	1	0.2	3
Withholding taxes	1.5	26	1.4	25
Under/(over) provided in prior years	(1.5)	(27)	(2.3)	(42)
Other reconciling items	0.1	2	0.5	9
	26.1	465	22.5	403

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

The reported tax rate is 26.1 per cent (2010: 22.5 per cent) and includes the effect of the release of tax provisions after having reached agreement with the tax authorities, mainly explaining the under/over provided amount as part of the current tax expense. The reported 2010 tax rate included the tax-exempt transfer of PT Multi Bintang Indonesia (MBI) and Grande Brasserie de Nouvelle-Caledonie S.A. (GBNC).

Income tax recognised in other comprehensive income

<u>In millions of EUR</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Changes in fair value		—	(5)
Changes in hedging reserve		13	(38)
Changes in translation reserve		11	—
Other		16	(38)
	24	40	(81)

14. Property, plant and equipment

In millions of EUR	Note	Land and buildings	Plant and equipment	Other fixed assets	Under construction	Total
Cost						
Balance as at 1 January 2010		3,460	5,337	3,518	315	12,630
Changes in consolidation		745	635	253	72	1,705
Purchases		38	82	249	279	648
Transfer of completed projects under construction		106	142	104	(352)	—
Transfer to/(from) assets classified as held for sale		26	34	39	2	101
Disposals		(49)	(130)	(285)	(1)	(465)
Effect of movements in exchange rates		71	107	61	15	254
Balance as at 31 December 2010		<u>4,397</u>	<u>6,207</u>	<u>3,939</u>	<u>330</u>	<u>14,873</u>
Balance as at 1 January 2011		4,397	6,207	3,939	330	14,873
Changes in consolidation	6	505	89	(31)	3	566
Purchases		55	99	320	326	800
Transfer of completed projects under construction		82	90	150	(322)	—
Transfer to/(from) assets classified as held for sale		(65)	—	—	—	(65)
Disposals		(35)	(92)	(255)	(6)	(388)
Effect of hyperinflation		2	11	2	2	17
Effect of movements in exchange rates		(71)	(127)	(73)	(1)	(272)
Balance as at 31 December 2011		<u>4,870</u>	<u>6,277</u>	<u>4,052</u>	<u>332</u>	<u>15,531</u>
Depreciation and impairment losses						
Balance as at 1 January 2010		(1,405)	(2,875)	(2,333)	—	(6,613)
Changes in consolidation		12	31	35	—	78
Depreciation charge for the year	11	(117)	(342)	(434)	—	(893)
Impairment losses	11	(15)	(19)	(6)	—	(40)
Reversal impairment losses	11	4	21	1	—	26
Transfer (to)/from assets classified as held for sale		(6)	(14)	(23)	—	(43)
Disposals		37	128	263	—	428
Effect of movements in exchange rates		(36)	(54)	(39)	—	(129)
Balance as at 31 December 2010		<u>(1,526)</u>	<u>(3,124)</u>	<u>(2,536)</u>	<u>—</u>	<u>(7,186)</u>
Balance as at 1 January 2011		(1,526)	(3,124)	(2,536)	—	(7,186)
Changes in consolidation	6	—	4	14	—	18
Depreciation charge for the year	11	(128)	(356)	(452)	—	(936)
Impairment losses	11	—	—	(8)	—	(8)
Reversal impairment losses	11	—	3	5	—	8
Transfer (to)/from assets classified as held for sale		3	—	—	—	3
Disposals		18	92	224	—	334
Effect of movements in exchange rates		11	42	43	—	96
Balance as at 31 December 2011		<u>(1,622)</u>	<u>(3,339)</u>	<u>(2,710)</u>	<u>—</u>	<u>(7,671)</u>
Carrying amount						
As at 1 January 2010		<u>2,055</u>	<u>2,462</u>	<u>1,185</u>	<u>315</u>	<u>6,017</u>
As at 31 December 2010		<u>2,871</u>	<u>3,083</u>	<u>1,403</u>	<u>330</u>	<u>7,687</u>
As at 1 January 2011		<u>2,871</u>	<u>3,083</u>	<u>1,403</u>	<u>330</u>	<u>7,687</u>
As at 31 December 2011		<u>3,248</u>	<u>2,938</u>	<u>1,342</u>	<u>332</u>	<u>7,860</u>

Impairment losses

In 2011 a total impairment loss of EUR8 million (2010: EUR40 million) was charged to profit or loss.

Financial lease assets

The Group leases P, P & E under a number of finance lease agreements. At 31 December 2011 the net carrying amount of leased P,P & E was EUR39 million (2010: EUR95 million). During the year, the Group acquired leased assets of EUR6 million (2010: EUR17 million).

Security to authorities

Certain P, P & E for EUR137 million (2010: EUR149 million) has been pledged to the authorities in a number of countries as security for the payment of taxation, particularly excise duties on beers, non-alcoholic beverages and spirits and import duties. This mainly relates to Brazil (see note 34).

Property, plant and equipment under construction

P, P & E under construction mainly relates to expansion of the brewing capacity in Mexico, the UK, and Nigeria.

Capitalised borrowing costs

During 2011 no borrowing costs have been capitalised (2010: EUR nil).

15. Intangible assets

In millions of EUR	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
Cost							
Balance as at 1 January 2010		5,713	1,382	351	124	259	7,829
Changes in consolidation		1,748	924	943	86	39	3,740
Purchases/internally developed		—	—	—	—	56	56
Disposals		(1)	(8)	—	—	(16)	(25)
Transfers to assets held for sale		—	—	—	—	3	3
Effect of movements in exchange rates		132	23	(10)	12	3	160
Balance as at 31 December 2010		<u>7,592</u>	<u>2,321</u>	<u>1,284</u>	<u>222</u>	<u>344</u>	<u>11,763</u>
Balance as at 1 January 2011		7,592	2,321	1,284	222	344	11,763
Changes in consolidation	6	287	8	18	38	—	351
Purchased/internally developed		—	—	—	6	50	56
Disposals		—	—	—	(91)	(6)	(97)
Effect of movements in exchange rates		(70)	(57)	(74)	(13)	(10)	(224)
Balance as at 31 December 2011		<u>7,809</u>	<u>2,272</u>	<u>1,228</u>	<u>162</u>	<u>378</u>	<u>11,849</u>
Amortisation and impairment losses							
Balance as at 1 January 2010		(280)	(108)	(74)	(50)	(182)	(694)
Changes in consolidation		—	—	—	25	3	28
Amortisation charge for the year	11	—	(54)	(88)	(16)	(34)	(192)
Impairment losses	11	—	(1)	—	(15)	—	(16)
Disposals		1	2	—	—	10	13
Transfers to assets held for sale		—	—	—	—	(2)	(2)
Effect of movements in exchange rates		—	(2)	(1)	(4)	(3)	(10)
Balance as at 31 December 2010		<u>(279)</u>	<u>(163)</u>	<u>(163)</u>	<u>(60)</u>	<u>(208)</u>	<u>(873)</u>

In millions of EUR	Note	Goodwill	Brands	Customer-related intangibles	Contract-based intangibles	Software, research and development and other	Total
Balance as at 1 January 2011		(279)	(163)	(163)	(60)	(208)	(873)
Changes in consolidation	6	—	—	—	1	(1)	—
Amortisation charge for the year	11	—	(59)	(110)	(24)	(36)	(229)
Impairment losses	11	—	(1)	—	—	(2)	(3)
Disposals		—	(1)	—	91	1	91
Effect of movements in exchange rates		—	3	5	(11)	3	—
Balance as at 31 December 2011		<u>(279)</u>	<u>(221)</u>	<u>(268)</u>	<u>(3)</u>	<u>(243)</u>	<u>(1,014)</u>
Carrying amount							
As at 1 January 2010		<u>5,433</u>	<u>1,274</u>	<u>277</u>	<u>74</u>	<u>77</u>	<u>7,135</u>
As at 31 December 2010		<u>7,313</u>	<u>2,158</u>	<u>1,121</u>	<u>162</u>	<u>136</u>	<u>10,890</u>
As at 1 January 2011		<u>7,313</u>	<u>2,158</u>	<u>1,121</u>	<u>162</u>	<u>136</u>	<u>10,890</u>
As at 31 December 2011		<u>7,530</u>	<u>2,051</u>	<u>960</u>	<u>159</u>	<u>135</u>	<u>10,835</u>

Brands and customer-related/contract-based intangibles

The main brands capitalised are the brands acquired in 2008: Scottish & Newcastle (Fosters and Strongbow) and 2010: Cervecería Cuauhtémoc Moctezuma (Dos Equis, Tecate and Sol). The main customer-related and contract-based intangibles were acquired in 2010 and are related to customer relationships with retailers in Mexico (constituting either by way of a contractual agreement or by way of non-contractual relations).

Impairment tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill in respect of Western Europe, Central and Eastern Europe (excluding Russia) and the Americas (excluding Brazil) is allocated and monitored on a regional basis. In respect of less integrated Operating Companies of Russia, Brazil and Africa and the Middle East, goodwill is allocated and monitored on an individual country basis.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

In millions of EUR	2011	2010*
Western Europe	3,396	3,328
Central and Eastern Europe (excluding Russia)	1,394	1,494
Russia	102	105
The Americas (excluding Brazil)	1,743	1,751
Brazil	111	110
Africa and the Middle East (aggregated)	528	245
Head Office and others	256	280
	<u>7,530</u>	<u>7,313</u>

* Comparatives have been adjusted due to the transfer of Empaque from the Americas region to Head Office.

Throughout the year total goodwill mainly increased due to the acquisition of the Sona and Ethiopian beer business and net foreign currency differences.

Goodwill is tested for impairments annually. The recoverable amounts of the CGUs are based on value-in-use calculations. Value in use was determined by discounting the future cash flows generated from the continuing use of the unit using a pre-tax discount rate.

The key assumptions used for the value-in-use calculations are as follows:

- Cash flows were projected based on actual operating results and the three-year business plan. Cash flows for a further seven-year period were extrapolated using expected annual per country volume growth rates, which are based on external sources. Management believes that this forecasted period is justified due to the long-term nature of the beer business and past experiences.
- The beer price growth per year after the first three-year period is assumed to be at specific per country expected annual long-term inflation, based on external sources.
- Cash flows after the first ten-year period were extrapolated using a perpetual growth rate equal to the expected annual long-term inflation, in order to calculate the terminal recoverable amount.
- A per CGU-specific pre-tax Weighted Average Cost of Capital (WACC) was applied in determining the recoverable amount of the units.

The values assigned to the key assumptions used for the value in use calculations are as follows:

	Pre-tax WACC	Expected annual long-term inflation 2015-2021	Expected volume growth rates 2015-2021
Western Europe	8.3%	2.1%	(0.4)%
Central and Eastern Europe (excluding Russia)	12.3%	2.7%	1.7%
Russia	14.8%	4.8%	1.9%
The Americas (excluding Brazil)	10.1%	2.5%	1.8%
Brazil	16.1%	4.3%	3.0%
Africa and Middle East	10.7-21.4%	2.7-8.4%	1.1-5.9%
Head Office and others	8.3-12.6%	2.1-3.6%	(0.4)-2.4%

The values assigned to the key assumptions represent management's assessment of future trends in the beer industry and are based on both external sources and internal sources (historical data).

HEINEKEN applied its methodology to determine CGU specific WACC's to perform its annual impairment testing on a consistent basis. The trend and outcome of several WACC's, for amongst others the Western Europe CGU, turned out lower than expected based on the current economic climate and associated outlooks. HEINEKEN does not believe the risk profile in Western Europe is significantly lower than in prior years. The lower WACC for 2011 is mainly driven by lower observed risk-free rates reflecting the capital flee towards safer deemed economies. HEINEKEN performed an additional impairment sensitivity calculation and concluded that applying a different WACC would not result in a materially different outcome. The WACC's disclosed are based on our internal consistent methodology.

Sensitivity to changes in assumptions

Limited headroom is available in our CGU's Russia and Brazil, however the outcome of a sensitivity analysis of a 100 basis points adverse change in key assumptions (lower growth rates or higher discount rates respectively) did not result in a materially different outcome of the impairment test.

16. Investments in associates and joint ventures

HEINEKEN has the following (direct and indirect) significant investments in associates and joint ventures:

	Country	Ownership 2011	Ownership 2010
Joint ventures			
Brau Holding International GmbH & Co KgaA	Germany	49.9%	49.9%
Zagorka Brewery A.D.	Bulgaria	49.4%	49.4%
Brewinvest S.A.	Greece	50.0%	50.0%
Pivara Skopje A.D.	FYR Macedonia	48.2%	27.6%
Brasseries du Congo S.A.	Congo	50.0%	50.0%
Asia Pacific Investment Pte. Ltd.	Singapore	50.0%	50.0%
Asia Pacific Breweries Ltd.	Singapore	41.9%	41.9%
Compania Cervecierias Unidas S.A.	Chile	33.1%	33.1%
Tempo Beverages Ltd.	Israel	40.0%	40.0%
HEINEKEN Lion Australia Pty.	Australia	50.0%	50.0%
Sirocco FZCo	Dubai	50.0%	50.0%
Diageo HEINEKEN Namibia B.V.	Namibia	50.0%	50.0%
United Breweries Limited	India	37.5%	37.5%
Millennium Alcobev Private Limited**	India	—	68.8%
DHN Drinks (Pty) Ltd.	South Africa	44.5%	44.5%
Sedibeng Brewery Pty Ltd.*	South Africa	75.0%	75.0%
UB Nizam Breweries Pvt. Ltd**	India	—	50.0%
UB Ajanta Breweries Pvt. Ltd	India	50.0%	50.0%
Associates			
Cerveceria Costa Rica S.A.	Costa Rica	25.0%	25.0%
JSC FE Efes Karaganda Brewery***	Kazakhstan	28.0%	28.0%

* HEINEKEN has joint control as the contract and ownership details determine that for certain main operating and financial decisions unanimous approval is required. As a result this investment is not consolidated.

** In 2011 these entities ceased to exist, they were merged into United Breweries Limited.

*** This entity is classified as Held for Sale (see note 7)

Reporting date

The reporting date of the financial statements of all HEINEKEN entities and joint ventures disclosed are the same as for the Company except for

(i) Asia Pacific Breweries Ltd., HEINEKEN Lion Australia Pty. and Asia Pacific Investment Pte. Ltd which have a 30 September reporting date (the APB results are included with a three-month delay in reporting);

(ii) DHN Drinks (Pty) Ltd. which has a 30 June reporting date, and;

(iii) United Breweries Limited and Millennium Alcobev Private Limited which have a 31 March reporting date. The results of (ii) and (iii) have been adjusted to include numbers for the full financial year ended 31 December 2011.

Share of profit of associates and joint ventures and impairments thereof

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Income associates	25	28
Income joint ventures	215	165
Impairments	—	—
	<u>240</u>	<u>193</u>

In the year APB (the JV of HEINEKEN and its partner Fraser and Neave) completed the sale of Kingway Brewery for SGD205 million (EUR116 million) of which SGD72 million (EUR41 million) was recorded as income by APB. As HEINEKEN has a share of 45.95 per cent a capital gain of SGD33 million (EUR19 million) is included in the share of profit of JV's.

Summary financial information for equity accounted joint ventures and associates

In millions of EUR	Joint ventures 2011	Joint ventures 2010	Associates 2011	Associates 2010
Non-current assets	1,708	1,696	73	50
Current assets	1,005	869	52	51
Non-current liabilities	(581)	(611)	(25)	(28)
Current liabilities	(725)	(684)	(30)	(23)
Revenue	2,313	2,108	153	547
Expenses	(1,914)	(1,887)	(117)	(420)

In the above table HEINEKEN represents its share of the aggregated amounts of assets, liabilities, revenues and expenses for its Joint Ventures and Associates for the year ended 31 December.

17. Other investments and receivables

In millions of EUR	Note	2011	2010
Non-current other investments			
Loans and advances to customers	32	384	455
Indemnification receivable	32	156	145
Other receivables	32	178	174
Held-to-maturity investments	32	5	4
Available-for-sale investments	32	264	190
Non-current derivatives	32	142	135
		<u>1,129</u>	<u>1,103</u>
Current other investments			
Investments held for trading	32	14	17
		<u>14</u>	<u>17</u>

Included in loans are loans to customers with a carrying amount of EUR120 million as at 31 December 2011 (2010: EUR166 million). Effective interest rates range from 6 to 12 per cent. EUR72 million (2010: EUR100 million) matures between one and five years and EUR48 million (2010: EUR66 million) after five years.

The indemnification receivable represents the receivable on FEMSA and Lewiston investments and is a mirroring of the corresponding indemnified liabilities originating from the acquisition of the beer operations of FEMSA and Sona.

The other receivables mainly originate from the acquisition of the beer operations of FEMSA and represent a receivable on the Brazilian Authorities on which interest is calculated in accordance with Brazilian legislation. Collection of this receivable is expected to be beyond a period of five years.

The main available-for-sale investments are S.A. Des Brasseries du Cameroun, Consorcio Cervecerero de Nicaragua S.A., Desnoes & Geddes Ltd., Brasserie Nationale d'Haiti S.A. and Cerveceria Nacional Dominicana. As far as these investments are listed they are measured at their quoted market price. For others the value in use or multiples are used. Debt securities (which are interest-bearing) with a carrying amount of EUR20 million (2010: EUR21 million) are included in available-for-sale investments.

Sensitivity analysis – equity price risk

An amount of EUR95 million as at 31 December 2011 (2010: EUR87 million) of available-for-sale investments and investments held for trading is listed on stock exchanges. An impact of 1 per cent increase or decrease in the share price at the reporting date would not result in a material impact on a consolidated Group level.

18. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

In millions of EUR	2011	Assets 2010	2011	Liabilities 2010	2011	Net 2010
Property, plant & equipment	93	86	(590)	(550)	(497)	(464)
Intangible assets	51	62	(733)	(789)	(682)	(727)
Investments	91	87	(6)	(9)	85	78
Inventories	16	33	(5)	(6)	11	27
Loans and borrowings	3	1	—	(2)	3	(1)
Employee benefits	252	254	12	11	264	265
Provisions	150	133	1	1	151	134
Other items	146	77	(138)	(51)	8	26
Tax losses carry-forwards	237	213	—	—	237	213
Tax assets/(liabilities)	1,039	946	(1,459)	(1,395)	(420)	(449)
Set-off of tax	(565)	(404)	565	404	—	—
Net tax assets/(liabilities)	474	542	(894)	(991)	(420)	(449)

Tax losses carry-forwards

HEINEKEN has losses carry-forwards for an amount of EUR1,920 million as at 31 December 2011 (2010: EUR1,833 million), which expire in the following years:

In millions of EUR	2011	2010
2011	—	11
2012	5	8
2013	6	32
2014	28	30
2015	23	32
2016	36	—
After 2016 respectively 2015 but not unlimited	372	314
Unlimited	1,450	1,406
	1,920	1,833
Recognised as deferred tax assets gross	(859)	(807)
Unrecognised	1,061	1,026

The unrecognised losses relate to entities for which it is not probable that taxable profit will be available to offset these losses. The majority of the unrecognised losses were acquired as part of the beer operations of FEMSA in 2010.

Movement in deferred tax on temporary differences during the year

In millions of EUR	Balance 1 January 2010	Policy change	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2010
Property, plant & equipment	(330)	—	(161)	—	28	—	(1)	(464)
Intangible assets	(269)	—	(475)	3	17	—	(3)	(727)
Investments	9	—	54	(3)	18	—	—	78
Inventories	11	—	(4)	(1)	20	—	1	27
Loans and borrowings	1	—	(1)	—	(1)	—	—	(1)
Employee benefits	116	151	53	(2)	(15)	(38)	—	265
Provisions	92	—	14	(2)	30	—	—	134
Other items	8	—	40	(2)	15	(43)	8	26
Tax losses carry-forwards	137	—	33	5	39	—	(1)	213
Net tax assets/(liabilities)	<u>(225)</u>	<u>151</u>	<u>(447)</u>	<u>(2)</u>	<u>151</u>	<u>(81)</u>	<u>4</u>	<u>(449)</u>

In millions of EUR	Balance 1 January 2011	Changes in consolidation	Effect of movements in foreign exchange	Recognised in income	Recognised in equity	Transfers	Balance 31 December 2011
Property, plant & equipment	(464)	(41)	20	(10)	—	(2)	(497)
Intangible assets	(727)	(18)	38	25	—	—	(682)
Investments	78	—	(7)	14	—	—	85
Inventories	27	—	—	(16)	—	—	11
Loans and borrowings	(1)	—	2	2	—	—	3
Employee benefits	265	—	—	(17)	16	—	264
Provisions	134	1	—	13	—	3	151
Other items	26	—	(5)	(19)	8	(2)	8
Tax losses carry-forwards	213	7	(2)	19	—	—	237
Net tax assets/(liabilities)	<u>(449)</u>	<u>(51)</u>	<u>46</u>	<u>11</u>	<u>24</u>	<u>(1)</u>	<u>(420)</u>

19. Inventories

In millions of EUR	2011	2010
Raw materials	263	241
Work in progress	150	147
Finished products	354	261
Goods for resale	205	231
Non-returnable packaging	143	120
Other inventories and spare parts	237	206
	<u>1,352</u>	<u>1,206</u>

During 2011 and 2010 no write-down of inventories to net realisable value was required.

20. Trade and other receivables

<u>In millions of EUR</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Trade receivables due from associates and joint ventures		42	102
Trade receivables		1,657	1,680
Other receivables		524	481
Derivatives		37	10
	32	<u>2,260</u>	<u>2,273</u>

A net impairment loss of EUR57 million (2010: EUR115 million) in respect of trade and other receivables was included in expenses for raw materials, consumables and services.

21. Cash and cash equivalents

<u>In millions of EUR</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	32	813	610
Bank overdrafts	25	(207)	(132)
Cash and cash equivalents in the statement of cash flows		<u>606</u>	<u>478</u>

22. Capital and reserves

Share issuance

On 30 April 2010 HEINEKEN issued 86,028,019 ordinary shares with a nominal value of EUR1.60, as a result of which the issued share capital consists of 576,002,613 shares. To these shares a share premium value was assigned of EUR2,701 million based on the quoted market price value of 43,009,699 shares HEINEKEN and 43,018,320 shares HEINEKEN Holding N.V. combined being the share consideration paid to Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA) for its beer operations.

Allotted Share Delivery Instrument

In addition to the shares issued to FEMSA, HEINEKEN also committed itself to deliver 29,172,504 additional shares to FEMSA (the 'Allotted Shares') over a period of no longer than five years. This financial instrument is classified to be equity as the number of shares is fixed. HEINEKEN had the option to accelerate the delivery of the Allotted Shares at its discretion. Pending delivery of the Allotted Shares, HEINEKEN paid a coupon on each undelivered Allotted Share such that FEMSA was compensated, on an after tax basis, for dividends FEMSA would have received had all such Allotted Shares been delivered to FEMSA on or prior to the record date for such dividends.

On 3 October 2011, HEINEKEN announced that the share repurchase programme in connection with the acquisition of FEMSA had been completed. During the period of 1 January through 31 December 2011 HEINEKEN acquired 18,407,246 shares with an average quoted market price of EUR36.67. During the year 2011 all these shares were delivered to FEMSA under the ASDI.

Share capital

<u>In millions of EUR</u>	<u>Ordinary shares</u>	
	<u>2011</u>	<u>2010</u>
On issue as at 1 January	922	784
Issued	—	138
On issue as at 31 December	<u>922</u>	<u>922</u>

As at 31 December 2011 the issued share capital comprised 576,002,613 ordinary shares (2010: 576,002,613). The ordinary shares have a par value of EUR1.60. All issued shares are fully paid.

The Company's authorised capital amounts to EUR2.5 billion, comprising of 1,562,500,000 shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by HEINEKEN (see next page), rights are suspended.

Translation reserve

The translation reserve comprises foreign currency differences arising from the translation of the financial statements of foreign operations of the Group (excluding amounts attributable to non-controlling interests) as well as value changes of the hedging instruments in the net investment hedges. HEINEKEN considers this a legal reserve.

Inflation in Belarus has been at relatively high levels in recent years. In the third quarter of 2011 cumulative three year inflation exceeded 100 per cent. This, combined with other indicators, results in HEINEKEN deeming Belarus as a hyperinflationary economy under IAS 29, Financial Reporting in Hyperinflationary Economies. IAS 29 is applied to the historical cost financial statements of our Belarusian operations from the beginning of 2011.

The restated financial statements of our Belarusian operations are translated to euro at the closing rate at the end of the reporting period. Differences arising on translation to euro are recognised in the translation reserve. The Consumer Price Index end of 2011 was 224.9 (2009: 100; 2010: 107.8) and increased in 2011 by 108.7.

The impact on equity is a net amount of EUR14 million, PP&E remeasurement of EUR18 million with offset in deferred tax liabilities for EUR4 million. The impact on the income statement for 2011 is not material.

Hedging reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred. HEINEKEN considers this a legal reserve.

Fair value reserve

This reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired. HEINEKEN considers this a legal reserve.

Other legal reserves

These reserves relate to the share of profit of joint ventures and associates over the distribution of which HEINEKEN does not have control. The movement in these reserves reflects retained earnings of joint ventures and associates minus dividends received. In case of a legal or other restriction which causes that retained earnings of subsidiaries cannot be freely distributed, a legal reserve is recognised for the restricted part.

Reserve for own shares

The reserve for the Company's own shares comprises the cost of the Company's shares held by HEINEKEN. As at 31 December 2011, HEINEKEN held 1,265,140 of the Company's shares (2010: 1,630,258), all of which are LTV shares in 2011.

The coupon paid on the ASDI in 2011 amounts to EUR15 million (2010: EUR7 million).

LTV

During the period of 1 January through 31 December 2011 HEINEKEN acquired 330.000 shares for LTV delivery with an average quoted market price of EUR40.91 for a total of EUR14 million.

Share purchase mandate

There are no outstanding share purchase mandates per 31 December 2011 (2010: EUR96 million). The current liability presented in accordance with IAS 32.23 per 31 December 2010 of EUR96 million was reversed in full.

Dividends

The following dividends were declared and paid by HEINEKEN:

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Final dividend previous year EUR0.50, respectively EUR0.40 per qualifying ordinary share	<u>299</u>	<u>195</u>
Interim dividend current year EUR0.30, respectively EUR0.26 per qualifying ordinary share	<u>175</u>	<u>156</u>
Total dividend declared and paid	<u>474</u>	<u>351</u>

HEINEKEN's policy is for an annual dividend payout of 30–35 per cent of Net profit BEIA. The interim dividend is fixed at 40 per cent of the total dividend of the previous year.

After the balance sheet date the Executive Board proposed the following dividends. The dividends, taking into account the interim dividends declared and paid, have not been provided for.

In millions of EUR	2011	2010
per qualifying ordinary share EUR0.83 (2010: EUR0.76)	<u>477</u>	<u>438</u>

23. Earnings per share

Basic earnings per share

The calculation of basic earnings per share as at 31 December 2011 is based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,430 million (2010: EUR1,447 million) and a weighted average number of ordinary shares – basic outstanding during the year ended 31 December 2011 of 585,100,381 (2010: 562,234,726). Basic earnings per share for the year amounts to EUR2.44 (2010: EUR2.57).

Weighted average number of shares – basic

	2011	2010
Number of shares basic 1 January	576,002,613	489,974,594
Effect of LTV own shares held	(1,177,321)	(1,152,409)
Effect of undelivered ASDI shares	10,275,089	14,726,761
Effect of new shares issued	—	58,685,780
Weighted number of basic shares for the year	<u>585,100,381</u>	<u>562,234,726</u>

ASDI

Allotted Share Delivery Instrument (ASDI) represents HEINEKEN'S obligation to deliver shares to FEMSA, either through issuance and/or purchasing of its own shares in the open market, which was concluded in 2011. EPS is impacted by ASDI as in the formula, calculating EPS, the net profit is divided by the weighted average number of ordinary shares. In this weighted average number of ordinary shares, the weighted average of outstanding ASDI is included. This means that the ASDI leads to a lower basic EPS until the year all shares have been repurchased.

Diluted earnings per share

The calculation of diluted earnings per share as at 31 December 2011 was based on the profit attributable to ordinary shareholders of the Company (net profit) of EUR1,430 million (2010: EUR1,447 million) and a weighted average number of ordinary shares – basic outstanding after adjustment for the effects of all dilutive potential ordinary shares of 586,277,702 (2010: 563,387,135). Diluted earnings per share for the year amounted to EUR2.44 (2010: EUR2.57).

Weighted average number of shares – diluted

	2011	2010
Weighted number of basic shares for the year	585,100,381	562,234,726
Effect of LTV own shares held	1,177,321	1,152,409
Weighted average diluted shares for the year	<u>586,277,702</u>	<u>563,387,135</u>

24. Income tax on other comprehensive income

In millions of EUR	2011			2010*		
	Amount before tax	Tax	Amount net of tax	Amount before tax	Tax	Amount net of tax
Other comprehensive income						
Foreign currency translation differences for foreign operations	(504)	11	(493)	390	—	390
Effective portion of changes in fair value of cash flow hedge	(31)	10	(21)	61	(18)	43
Effective portion of cash flow hedges transferred to profit or loss	(14)	3	(11)	65	(20)	45
Ineffective portion of cash flow hedges transferred to profit or loss	—	—	—	9	—	9
Net change in fair value available-for-sale investments	71	—	71	16	(5)	11
Net change in fair value available-for-sale investments transferred to profit or loss	(1)	—	(1)	(17)	—	(17)
Actuarial gains and losses	(109)	16	(93)	137	(38)	99
Share of other comprehensive income of associates/joint ventures	(5)	—	(5)	(29)	—	(29)
Total other comprehensive income	<u>(593)</u>	<u>40</u>	<u>(553)</u>	<u>632</u>	<u>(81)</u>	<u>551</u>

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

The difference between the income tax on other comprehensive income and the deferred tax on equity (note 18) in 2011 can be explained by current tax on other comprehensive income.

25. Loans and borrowings

This note provides information about the contractual terms of HEINEKEN'S interest-bearing loans and borrowings. For more information about HEINEKEN'S exposure to interest rate risk and foreign currency risk, see note 32.

Non-current liabilities

In millions of EUR	Note	2011	2010
Secured bank loans		37	48
Unsecured bank loans		3,607	3,260
Unsecured bond issues		2,493	2,482
Finance lease liabilities	26	33	47
Other non-current interest-bearing liabilities		1,825	1,895
Non-current interest-bearing liabilities		7,995	7,732
Non-current derivatives		177	291
Non-current non-interest-bearing liabilities		27	55
		<u>8,199</u>	<u>8,078</u>

Current interest-bearing liabilities

<u>In millions of EUR</u>	Note	2011	2010
Current portion of secured bank loans		13	11
Current portion of unsecured bank loans		329	346
Current portion of finance lease liabilities	26	6	48
Current portion of other non-current interest-bearing liabilities		184	32
Total current portion of non-current interest-bearing liabilities		532	437
Deposits from third parties (mainly employee loans)		449	425
		981	862
Bank overdrafts	21	207	132
		<u>1,188</u>	<u>994</u>

Net interest-bearing debt position

<u>In millions of EUR</u>	Note	2011	2010
Non-current interest-bearing liabilities		7,995	7,732
Current portion of non-current interest-bearing liabilities		532	437
Deposits from third parties (mainly employee loans)		449	425
		8,976	8,594
Bank overdrafts	21	207	132
		9,183	8,726
Cash, cash equivalents and current other investments		(828)	(627)
Net interest-bearing debt position		<u>8,355</u>	<u>8,099</u>

Non-current liabilities

<u>In millions of EUR</u>	Secured bank loans	Unsecured bank loans	Unsecured bond issues	Finance lease liabilities	Other non-current interest-bearing liabilities	Non-current derivatives	Non-current non-interest-bearing liabilities	Total
Balance as at 1 January 2011	48	3,260	2,482	47	1,895	291	55	8,078
Consolidation changes	—	—	—	—	(24)	—	—	(24)
Effect of movements in exchange rates	(1)	(35)	—	—	18	(4)	(9)	(31)
Transfers to current liabilities	(6)	(802)	3	(4)	(169)	(57)	(7)	(1,042)
Charge to/(from) profit or loss i/r derivatives	—	—	—	—	—	(8)	—	(8)
Charge to/(from) equity i/r derivatives	—	—	—	—	—	(26)	—	(26)
Proceeds	1	1,711	—	1	75	—	(9)	1,779
Repayments	(5)	(568)	3	(11)	(3)	(19)	(17)	(620)
Other	—	41	5	—	33	—	14	93
Balance as at 31 December 2011	<u>37</u>	<u>3,607</u>	<u>2,493</u>	<u>33</u>	<u>1,825</u>	<u>177</u>	<u>27</u>	<u>8,199</u>

Terms and debt repayment schedule

Terms and conditions of outstanding non-current and current loans and borrowings were as follows:

In millions of EUR	Category	Currency	Nominal interest rate %	Repayment	Carrying amount 2011	Face value 2011	Carrying amount 2010	Face value 2010
Secured bank loans	Bank facilities	GBP	1.9	2016	17	17	23	23
Secured bank loans	Various	various	various	various	33	33	36	36
Unsecured bank loans	2008 Syndicated Bank Facility	EUR	0.4-1.7	2013	1,305	1,313	1,708	1,709
Unsecured bank loans	Bank Facility	EUR	6.0	2013-2016	329	329	434	434
Unsecured bank loans	German Schuldschein notes	EUR	1.0-6.0	2016	111	111	111	111
Unsecured bank loans	German Schuldschein notes	EUR	1.0-6.0	2012	102	102	102	102
Unsecured bank loans	German Schuldschein notes	EUR	1.0-6.0	2016	207	207	207	207
Unsecured bank loans	2008 Syndicated Bank Facility	GBP	0.4-1.2	2013	287	287	336	340
Unsecured bank loans	Bank Facilities	PLN	5.4-5.6	2013-2014	72	72	60	60
Unsecured bank loans	2011 Syndicated Bank Facilities	USD	0.8	2016	450	450	—	—
Unsecured bank loans	2011 Syndicated Bank Facilities	GBP	0.8	2016	422	422	—	—
Unsecured bank loans	2011 Syndicated Bank Facilities	EUR	0.8	2016	107	107	—	—
Unsecured bank loans	Bank Facilities	USD	0.8	2012-2013	93	93	167	172
Unsecured bank loans	Bank Facilities	MXN	4.5-10.6	2012-2013	183	176	444	445
Unsecured bank loans	Bank facilities	NGN	12.5-17.3	2012-2016	228	228	—	—
Unsecured bank loans	Various	various	various	various	40	40	37	37
Unsecured bond	Issue under EMTN programme	GBP	7.3	2015	476	479	461	465
Unsecured bond	Eurobond on Luxembourg Stock Exchange	EUR	5.0	2013	599	600	599	600
Unsecured bond	Issue under EMTN programme	EUR	7.1	2014	1,000	1,000	1,009	1,000
Unsecured bond	Issue under EMTN programme	EUR	4.6	2016	398	400	397	400
Unsecured bond issues	n/a	various	various	various	20	20	16	16
Other interest-bearing liabilities	2010 US private placement	USD	4.6	2018	559	561	541	546
Other interest-bearing liabilities	2002 S&N US private placement	USD	5.4-5.6	2012-2014	632	580	616	569
Other interest-bearing liabilities	2005 S&N US private placement	USD	5.4	2015	258	232	247	225
Other interest-bearing liabilities	2008 US private placement	USD	5.9-6.3	2015-2018	341	342	331	333
Other interest-bearing liabilities	2011 US private placement	USD	2.8	2017	69	70	—	—
Other interest-bearing liabilities	2008 US private placement	EUR	7.25	2016	30	30	30	33
Other interest-bearing liabilities	Various	various	various	various	120	120	162	158
Deposits from third parties	n/a	various	various	various	449	449	425	425
Finance lease liabilities	n/a	various	various	various	39	39	95	100
					8,976	8,909	8,594	8,546

Revolving Credit Facility

On 5 May 2011, HEINEKEN N.V. announced the successful closing of a new Revolving Credit Facility for an amount of EUR2 billion with a syndicate of 17 banks. The new self-arranged credit line has a tenor of five years with two 1-year extension options and can be used for general corporate purposes. The new Revolving Credit Facility replaces the existing EUR2 billion facility. As at 31 December 2011, the committed available financing headroom was approximately EUR1.3 billion, including cash available at Group level.

On 27 October 2011, HEINEKEN issued USD90 million of notes with a 6-year maturity, further improving the currency and maturity profile of its long-term debt.

EMTN Programme

In September 2008, HEINEKEN established a Euro Medium Term Note (“EMTN”) Programme which was subsequently updated in September 2009 and September 2010. The programme allows HEINEKEN from time to time to issue Notes. Currently approximately EUR1.9 billion of Notes is outstanding under the programme. The programme can be used for issuance up to one year after its latest update. The EMTN Programme and all HEINEKEN N.V. bonds are listed on the Luxembourg Stock Exchange. HEINEKEN still has a capacity of EUR3.1 billion under this programme. HEINEKEN is in the process of updating the programme.

Incurrence covenant

HEINEKEN has an incurrence covenant in some of its financing facilities. This incurrence covenant is calculated by dividing Net Debt (calculated in accordance with the consolidation method of the 2007 Annual Accounts) by EBITDA (beia) (also calculated in accordance with the consolidation method of the 2007 Annual Accounts and including the pro-forma full-year EBITDA of any acquisitions made in 2011). As at 31 December 2011 this ratio was 2.1 (2010: 2.1). If the ratio would be beyond a level of 3.5, the incurrence covenant would prevent us from conducting further significant debt financed acquisitions.

26. Finance lease liabilities

Finance lease liabilities are payable as follows:

In millions of EUR	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
	2011	2011	2011	2010	2010	2010
Less than one year	7	(1)	6	49	(1)	48
Between one and five years	27	(1)	26	39	(3)	36
More than five years	7	—	7	13	(2)	11
	<u>41</u>	<u>(2)</u>	<u>39</u>	<u>101</u>	<u>(6)</u>	<u>95</u>

27. Non-GAAP measures

In the internal management reports HEINEKEN measures its performance primarily based on EBIT and EBIT (beia), these are non-GAAP measures not calculated in accordance with IFRS. A similar non-GAAP adjustment can be made to the IFRS profit or loss as defined in IAS 1 paragraph 7 being the total of income less expense. Exceptional items are defined as items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period. The table below presents the relationship with IFRS terms, the results from operating activities and profit and HEINEKEN non-GAAP measures being EBIT, EBIT (beia) and profit (beia) for the financial year 2011.

<u>In millions of EUR</u>	<u>2011*</u>	<u>2010*</u>
Results from operating activities	2,215	2,298
Share of profit of associates and joint ventures and impairments thereof (net of income tax)	240	193
HEINEKEN EBIT	2,455	2,491
Exceptional items and amortisation included in EBIT	242	132
HEINEKEN EBIT (beia)	2,697	2,623
Profit attributable to equity holders of the Company	1,430	1,447
Exceptional items and amortisation included in EBIT	242	132
Exceptional items included in finance costs	(14)	(5)
Exceptional items included in tax expense	(74)	(118)
HEINEKEN net profit beia	<u>1,584</u>	<u>1,456</u>

* unaudited

The exceptional items included in EBIT contain the amortisation of brands and customer relations for EUR170 million (2010: EUR142 million). The EU fine reduction of EUR21 million (gain), gain on sale of brands EUR24 million, redundancies and contract settlements for EUR81 million and the early amortisation and termination of contracts for EUR36 million relating to the Galaxy pub estate.

Exceptional items in the other net financing costs reflects fair value movements on interest rate swaps made by Scottish & Newcastle in the past that do not qualify for hedge accounting under IFRS. The tax expense exceptional items are for EUR47 million (2010: EUR39 million) related to amortisation of brands and customer relations and the remainder relates to the other exceptional items included in EBIT.

EBIT and EBIT (beia) are not financial measures calculated in accordance with IFRS. The presentation on these financial measures may not be comparable to similarly titled measures reported by other companies due to differences in the ways the measures are calculated.

28. Employee benefits

<u>In millions of EUR</u>	<u>2011</u>	<u>2010*</u>
Present value of unfunded obligations	96	118
Present value of funded obligations	6,804	6,525
Total present value of obligations	6,900	6,643
Fair value of plan assets	(5,860)	(5,646)
Present value of net obligations	1,040	997
Asset ceiling items	14	—
Recognised liability for defined benefit obligations	1,054	997
Other long-term employee benefits	120	100
	<u>1,174</u>	<u>1,097</u>

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

Plan assets comprise:

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Equity securities	2,520	2,484
Government bonds	2,534	2,421
Properties and real estate	410	436
Other plan assets	396	305
	<u>5,860</u>	<u>5,646</u>

The primary goal of the HEINEKEN pension funds is to monitor the mix of debt and equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis.

Liability for defined benefit obligations

HEINEKEN makes contributions to a number of defined benefit plans that provide pension benefits for employees upon retirement in a number of countries being mainly the Netherlands and the UK (83 per cent of the total DBO). Other countries with a defined benefit plan are: Ireland, Greece, Austria, Italy, France, Spain, Mexico, Belgium, Switzerland, Portugal and Nigeria. In other countries the pension plans are defined contribution plans and/or similar arrangements for employees.

In the UK the defined benefit scheme for employees (actives) was closed in 2011 and was replaced by a defined contribution scheme. The remaining defined benefit schemes in the UK are now closed for new entrants.

Other long-term employee benefits mainly relate to long-term bonus plans, termination benefits, medical plans and jubilee benefits.

Movements in the present value of the defined benefit obligations

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Defined benefit obligations as at 1 January	6,643	5,935
Changes in consolidation and reclassification	—	286
Effect of movements in exchange rates	75	131
Benefits paid	(307)	(298)
Employee contributions	24	19
Current service costs and interest on obligation	411	411
Past service costs	(5)	(9)
Effect of any curtailment or settlement	(35)	(15)
Actuarial (gains)/losses in other comprehensive income	94	183
Defined benefit obligations as at 31 December	<u>6,900</u>	<u>6,643</u>

Movements in the present value of plan assets

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Fair value of plan assets as at 1 January	5,646	4,858
Changes in consolidation and reclassification	—	115
Effect of movements in exchange rates	76	127
Contributions paid into the plan	145	226
Benefits paid	(307)	(298)
Expected return on plan assets	315	298
Actuarial gains/(losses) in other comprehensive income	(15)	320
Fair value of plan assets as at 31 December	<u>5,860</u>	<u>5,646</u>
Actual return on plan assets	<u>307</u>	<u>618</u>

Expense recognised in profit or loss

In millions of EUR	Note	2011	2010*
Current service costs		71	77
Interest on obligation		340	334
Expected return on plan assets		(315)	(298)
Past service costs		(5)	(9)
Effect of any curtailment or settlement		(35)	(15)
	10	<u>56</u>	<u>89</u>

* Comparatives have been adjusted due to the accounting policy change in employee benefits (see note 2e)

Actuarial gains and losses recognised in other comprehensive income

In millions of EUR	Note	2011	2010
Amount accumulated in retained earnings at 1 January		410	547
Recognised during the year		109	(137)
Amount accumulated in retained earnings at 31 December		<u>519</u>	<u>410</u>

Principal actuarial assumptions as at the balance sheet date

The defined benefit plans in the Netherlands and the UK cover 87.2 per cent of the present value of the plan assets (2010: 86.8 per cent), 82.8 per cent of the present value of the defined benefit obligations (2010: 81.7 per cent) and 57.8 per cent of the present value of net obligations (2010: 52.9 per cent) as at 31 December 2011. The table below presents the expected return on plan assets compared to the actual return on plan assets for our main defined benefit plans.

In millions of EUR	The Netherlands		UK	
	2011	2010	2011	2010
Expected return on plan assets	125	121	152	145
Actual return on plan assets	62	275	226	304
Variance	<u>(63)</u>	<u>154</u>	<u>74</u>	<u>159</u>

For the Netherlands and the UK the following actuarial assumptions apply as at 31 December:

	The Netherlands		UK	
	2011	2010	2011*	2010
Discount rate as at 31 December	4.6	5.1	4.7	5.4
Expected return on plan assets as at 1 January	5.5	5.7	6.2	6.4
Future salary increases	3	3	—	4.6
Future pension increases	1	1.5	3	3
Medical cost trend rate	<u>—</u>	<u>—</u>	<u>—</u>	<u>7</u>

* The UK plan closed for future accruals leading to certain assumptions being equal to zero.

For the other defined benefit plans the following actuarial assumptions apply as per 31 December:

	Other Western, Central and Eastern Europe		The Americas		Africa and the Middle East	
	2011	2010	2011	2010	2011	2010
Discount rate as at 31 December	2.9–4.8	2.4–5.8	7.6–10.7	7–7.6	13	7–10
Expected return on plan assets as at 1 January	3.3–7.3	2.9–7.3	7.6	6.5–8.2	—	—
Future salary increases	1–10	1–10	3.8	3.8–5.5	12	5–10
Future pension increases	1–2.1	1–2.1	2.9	2.8–3	—	—
Medical cost trend rate	3.5	3.5–4.5	5.1	5.1	—	—

Assumptions regarding future mortality rates are based on published statistics and mortality tables. For the Netherlands the rates are obtained from the ‘AG-Prognosetafel 2010-2060’, fully generational. Correction factors from TowersWatson are applied on these. For the UK the rates are obtained from the Continuous Mortality Investigation 2011 projection model.

The overall expected long-term rate of return on assets is 5.5 per cent (2010: 6 per cent), which is based on the asset mix and the expected rate of return on each major asset class, as managed by the pension funds.

Assumed healthcare cost trend rates have no effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would not have any effect on profit or loss neither on the statement of financial position as at 31 December 2011.

Based on the most recent triannual review finalised in early 2010, HEINEKEN has agreed a 12-year plan aiming to fund the recovery of the Scottish & Newcastle pension fund through additional Company contributions. These could total GBP504 million of which GBP35 million has been paid to December 2011. As at 31 December 2011 the IAS 19 present value of the net obligations of the Scottish & Newcastle pension fund represents a GBP465 million (EUR557 million) deficit. No additional liability has to be recognised as the net present value of the minimum funding requirement does not exceed the net obligation. The start of the next review of the funding position and the recovery plan will take place no later than around year-end 2012 and is not expected to be finalised beginning 2013.

The Group expects the 2012 contributions to be paid for the defined benefit plan to be in line with 2011.

Historical information

In millions of EUR	2011	2010	2009	2008	2007
Present value of the defined benefit obligation	6,900	6,643	5,936	4,963	2,858
Fair value of plan assets	(5,860)	(5,646)	(4,858)	(4,231)	(2,535)
Deficit in the plan	1,040	997	1,078	732	323
Experience adjustments arising on plan liabilities, losses/(gains)	(30)	(24)	(116)	71	(4)
Experience adjustments arising on plan assets, (losses)/gains	(15)	320	313	(817)	16

29. Share-based payments – Long-Term Variable Award

As from 1 January 2005 HEINEKEN established a performance-based share plan (Long-Term Variable award; LTV) for the Executive Board. As from 1 January 2006 a similar plan was established for senior management. Under this LTV share rights are awarded to incumbents on an annual basis. The vesting of these rights is subject to the performance of HEINEKEN N.V. on specific performance conditions over a three year period.

The LTV 2009 – 2011 performance condition for the Executive Board is Relative Total Shareholder Return (RTSR) or TSR performance in comparison with the TSR performance of a selected peer group. The LTV 2009-2011 performance conditions for senior management are RTSR (25 per cent) and internal financial measures (75 per cent).

The performance conditions for LTV 2010-2012 and LTV 2011-2013 are the same for the Executive Board and senior management and comprise solely of internal financial measures, being Organic Gross Profit beia growth, Organic EBIT beia growth, Earnings Per Share (EPS) beia growth and Free Operating Cash Flow.

At target performance, 100 per cent of the awarded shares vest. At threshold performance, 50 per cent of the awarded shares vest. At maximum performance 200 per cent of the awarded shares vest for the Executive Board as well as senior managers contracted by the US and 175 per cent vest for all other senior managers.

The performance period for share rights granted in 2009 was from 1 January 2009 to 31 December 2011. The performance period for share rights granted in 2010 is from 1 January 2010 to 31 December 2012. The performance period for the share rights granted in 2011 is from 1 January 2011 to 31 December 2013. The vesting date for the Executive Board is within five business days, and for senior management the latest of 1 April and 20 business days, after the publication of the annual results of 2011, 2012 and 2013 respectively.

As HEINEKEN will withhold the tax related to vesting on behalf of the individual employees, the number of HEINEKEN N.V. shares to be received by the Executive Board and senior management will be a net number.

The terms and conditions of the share rights granted are as follows:

<u>Grant date/employees entitled</u>	<u>Number*</u>	<u>Based on share price</u>	<u>Vesting conditions</u>	<u>Contractual life of rights</u>
Share rights granted to Executive Board in 2009	53,083	21.90	Continued service and RTSR performance	3 years
Share rights granted to senior management in 2009	562,862	21.90	Continued service, 75% internal performance conditions and 25% RTSR performance	3 years
Share rights granted to Executive Board in 2010	55,229	33.27	Continued service, 100% internal performance conditions	3 years
Share rights granted to senior management in 2010	516,765	33.27	Continued service, 100% internal performance conditions	3 years
Share rights granted to Executive Board in 2011	65,072	36.69	Continued service, 100% internal performance conditions	3 years
Share rights granted to senior management in 2011	730,090	36.69	Continued service, 100% internal performance conditions	3 years

* The number of shares is based on target performance.

Based on RTSR and internal performance, it is expected that approximately 593,428 shares will vest in 2012 for senior management.

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The number -as corrected for the expected performance for the various awards- and weighted average share price per share under the LTV of senior management are as follows:

	Weighted average share price 2011	Number of share rights 2011	Weighted average share price 2010	Number of share rights 2010*
Outstanding as at 1 January	30.11	1,575,880	30.35	1,481,269
Granted during the year	36.69	795,162	33.27	571,994
Forfeited during the year	31.73	(119,856)	30.89	(94,817)
Vested during the year	44.22	(234,485)	36.03	(253,377)
Performance adjustment	—	(470,187)	—	(129,189)
Outstanding as at 31 December	<u>29.14</u>	<u>1,546,514</u>	<u>30.11</u>	<u>1,575,880</u>

* The 2010 figures are restated to reflect the performance adjustment in number of shares.

No vesting occurred under the 2008 – 2010 LTV of the Executive Board. A total of 234,485 (gross) shares vested under the 2008 – 2010 LTV of senior management.

Additionally, under extraordinary share plans 52,746 shares were granted and 17,864 (gross) shares vested. These extraordinary grants only have a service condition and vest between 1 and 5 years. The expenses relating to these expected additional grants are recognised in profit or loss during the vesting period. Expenses recognised in 2011 are EURO.4 million (2010: EURO.5 million).

The fair value of services received in return for share rights granted is based on the fair value of shares granted, measured using the Monte Carlo model (applicable for the LTV 2009 – 2011 LTV plan), with following inputs:

In EUR	Executive Board 2009	Senior management 2009
Fair value at grant date	512,359	8,478,659
Expected volatility	22.8%	22.8%
Expected dividends	<u>2.1%</u>	<u>2.1%</u>

Personnel expenses

In millions of EUR	Note	2011	2010
Share rights granted in 2008		—	3
Share rights granted in 2009		5	5
Share rights granted in 2010		1	7
Share rights granted in 2011		5	—
Total expense recognised as personnel expenses	10	<u>11</u>	<u>15</u>

30. Provisions

<u>In millions of EUR</u>	<u>Note</u>	<u>Restructuring</u>	<u>Onerous contracts</u>	<u>Other</u>	<u>Total</u>
Balance as at 1 January 2011		112	55	431	598
Changes in consolidation	6	—	—	15	15
Provisions made during the year		108	8	53	169
Provisions used during the year		(61)	(20)	(42)	(123)
Provisions reversed during the year		(10)	(3)	(61)	(74)
Effect of movements in exchange rates		—	—	(13)	(13)
Unwinding of discounts		2	2	13	17
Balance as at 31 December 2011		<u>151</u>	<u>42</u>	<u>396</u>	<u>589</u>
Non-current		84	30	335	449
Current		67	12	61	140
		<u>151</u>	<u>42</u>	<u>396</u>	<u>589</u>

Restructuring

The provision for restructuring of EUR151 million mainly relates to restructuring programmes in Spain, the Netherlands and the UK.

Other provisions

Included are, amongst others, surety and guarantees provided EUR27 million (2010: EUR56 million) and litigation and claims EUR207 million (2010: EUR230 million).

31. Trade and other payables

<u>In millions of EUR</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Trade payables		<u>2,009</u>	1,660
Returnable packaging deposits		<u>490</u>	434
Taxation and social security contributions		<u>665</u>	652
Dividend		<u>33</u>	53
Interest		<u>100</u>	97
Derivatives		<u>164</u>	66
Share purchase mandate		<u>—</u>	96
Other payables		<u>243</u>	298
Accruals and deferred income		<u>920</u>	909
	32	<u>4,624</u>	<u>4,265</u>

32. Financial risk management and financial instruments

Overview

HEINEKEN has exposure to the following risks from its use of financial instruments, as they arise in the normal course of HEINEKEN's business:

- Credit risk
- Liquidity risk
- Market risk.

This note presents information about HEINEKEN's exposure to each of the above risks, and it summarises HEINEKEN's policies and processes that are in place for measuring and managing risk, including those related to capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Executive Board, under the supervision of the Supervisory Board, has overall responsibility and sets rules for HEINEKEN's risk management and control systems. They are reviewed regularly to reflect changes in market conditions and the Group's activities. The Executive Board oversees the adequacy and functioning of the entire system of risk management and internal control, assisted by Group departments.

The Global Treasury function focuses primarily on the management of financial risk and financial resources. Some of the risk management strategies include the use of derivatives, primarily in the form of spot and forward exchange contracts and interest rate swaps, but options can be used as well. It is the Group policy that no speculative transactions are entered into.

Credit risk

Credit risk is the risk of financial loss to HEINEKEN if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from HEINEKEN's receivables from customers and investment securities.

The economic crisis has impacted our regular business activities and performance, in particular in consumer spending and solvency. However, the business impact differed across the regions and operations. Local management has assessed the risk exposure following Group instructions and is taking action to mitigate the higher than usual risks. Intensified and continuous focus is being given in the areas of customers (managing trade receivables and loans) and suppliers (financial position of critical suppliers).

As at the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial instrument, including derivative financial instruments, in the consolidated statement of financial position.

Loans to customers

HEINEKEN's exposure to credit risk is mainly influenced by the individual characteristics of each customer. HEINEKEN's held-to-maturity investments includes loans to customers, issued based on a loan contract. Loans to customers are ideally secured by, amongst others, rights on property or intangible assets, such as the right to take possession of the premises of the customer. Interest rates calculated by HEINEKEN are at least based on the risk-free rate plus a margin, which takes into account the risk profile of the customer and value of security given.

HEINEKEN establishes an allowance for impairment of loans that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar customers in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics.

In a few countries the issue of new loans is outsourced to third parties. In most cases, HEINEKEN issues sureties (guarantees) to the third party for the risk of default by the customer.

Trade and other receivables

HEINEKEN's local management has credit policies in place and the exposure to credit risk is monitored on an ongoing basis. Under the credit policies all customers requiring credit over a certain amount are reviewed and new customers are analysed individually for creditworthiness before HEINEKEN's standard payment and delivery terms and conditions are offered. HEINEKEN's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer and these limits are reviewed regularly. As a result of the deteriorating economic circumstances since 2008, certain purchase limits have been redefined. Customers that fail to meet HEINEKEN's benchmark creditworthiness may transact with HEINEKEN only on a prepayment basis.

In monitoring customer credit risk, customers are, on a country base, grouped according to their credit characteristics, including whether they are an individual or legal entity, which type of distribution channel they represent, geographic location, industry, ageing profile, maturity and existence of previous financial difficulties. Customers that are graded as 'high risk' are placed on a restricted customer list, and future sales are made on a prepayment basis only with approval of Management.

HEINEKEN has multiple distribution models to deliver goods to end customers. Deliveries are done in some countries via own wholesalers, in other markets directly and in some others via third parties. As such distribution models are country specific and on consolidated level diverse, as such the results and the balance sheet items cannot be split between types of customers on a consolidated basis. The various distribution models are also not centrally managed or monitored.

HEINEKEN establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The components of this allowance are a specific loss component and a collective loss component.

Advances to customers

Advances to customers relate to an upfront cash-discount to customers. The advances are amortised over the term of the contract as a reduction of revenue.

In monitoring customer credit risk, refer to the paragraph above relating to trade and other receivables.

Investments

HEINEKEN limits its exposure to credit risk by only investing available cash balances in liquid securities and only with counterparties that have a credit rating of at least single A or equivalent for short-term transactions and AA- for long-term transactions. HEINEKEN actively monitors these credit ratings.

Guarantees

HEINEKEN's policy is to avoid issuing guarantees where possible unless this leads to substantial benefits for the Group. In cases where HEINEKEN does provide guarantees, such as to banks for loans (to third parties), HEINEKEN aims to receive security from the third party.

HEINEKEN N.V. has issued a joint and several liability statement to the provisions of Section 403, Part 9, Book 2 of the Dutch Civil Code with respect to legal entities established in the Netherlands.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<u>In millions of EUR</u>	<u>Note</u>	<u>2011</u>	<u>2010</u>
Loans and advances to customers	17	384	455
Indemnification receivable	17	156	145
Other long-term receivables	17	178	174
Held-to-maturity investments	17	5	4
Available-for-sale investments	17	264	190
Non-current derivatives	17	142	135
Investments held for trading	17	14	17
Trade and other receivables, excluding current derivatives	20	2,223	2,263
Current derivatives	20	37	10
Cash and cash equivalents	21	813	610
		4,216	4,003

The maximum exposure to credit risk for trade and other receivables (excluding derivatives) at the reporting date by geographic region was:

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Western Europe	1,038	997
Central and Eastern Europe	448	458
The Americas	405	497
Africa and the Middle East	166	151
Asia Pacific	19	19
Head Office/eliminations	147	141
	2,223	2,263

Impairment losses

The ageing of trade and other receivables (excluding derivatives) at the reporting date was:

<u>In millions of EUR</u>	<u>Gross 2011</u>	<u>Impairment 2011</u>	<u>Gross 2010</u>	<u>Impairment 2010</u>
Not past due	1,909	(67)	1,894	(49)
Past due 0 – 30 days	233	(17)	250	(21)
Past due 31 – 120 days	210	(83)	271	(106)
More than 120 days	349	(311)	294	(270)
	2,701	(478)	2,709	(446)

The movement in the allowance for impairment in respect of trade and other receivables (excluding derivatives) during the year was as follows:

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Balance as at 1 January	446	378
Impairment loss recognised	104	168
Allowance used	(17)	(52)
Allowance released	(47)	(53)
Effect of movements in exchange rates	(8)	5
Balance as at 31 December	<u>478</u>	<u>446</u>

The movement in the allowance for impairment in respect of loans during the year was as follows:

<u>In millions of EUR</u>	<u>2011</u>	<u>2010</u>
Balance as at 1 January	171	165
Changes in consolidation	—	(8)
Impairment loss recognised	10	37
Allowance used	(3)	(23)
Allowance released	(9)	(2)
Effect of movements in exchange rates	1	2
Balance as at 31 December	<u>170</u>	<u>171</u>

Impairment losses recognised for trade and other receivables (excluding derivatives) and loans are part of the other non-cash items in the consolidated statement of cash flows.

The income statement impact of EUR1 million (2010: EUR35 million) in respect of loans and the income statement impact of EUR57 million (2010: EUR115 million) in respect of trade receivables (excluding derivatives) were included in expenses for raw materials, consumables and services.

The allowance accounts in respect of trade and other receivables and held-to-maturity investments are used to record impairment losses, unless HEINEKEN is satisfied that no recovery of the amount owing is possible, at that point the amount considered irrecoverable is written off against the financial asset.

Liquidity risk

Liquidity risk is the risk that HEINEKEN will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. HEINEKEN's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to HEINEKEN's reputation.

Recent times have proven the credit markets situation could be such that it is difficult to generate capital to finance long-term growth of the Company. Although currently the situation is more stable, the Company has a clear focus on ensuring sufficient access to capital markets to finance long-term growth and to refinance maturing debt obligations. Financing strategies are under continuous evaluation. In addition, the Company focuses on a further fine-tuning of the maturity profile of its long-term debts with its forecasted operating cash flows. Strong cost and cash management and controls over investment proposals are in place to ensure effective and efficient allocation of financial resources.

Contractual maturities

The following are the contractual maturities of non-derivative financial liabilities and derivative financial assets and liabilities, including interest payments and excluding the impact of netting agreements:

In millions of EUR	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	2011 More than 5 years
Financial liabilities						
Interest-bearing liabilities	9,183	(10,287)	(1,543)	(2,864)	(4,794)	(1,086)
Non-interest-bearing liabilities	27	(20)	7	(16)	(5)	(6)
Trade and other payables, excluding interest, dividends and derivatives	4,327	(4,327)	(4,327)	—	—	—
Derivative financial (assets) and liabilities						
Interest rate swaps used for hedge accounting, net	(12)	9	(42)	26	(42)	67
Forward exchange contracts used for hedge accounting, net	46	(43)	(35)	(8)	—	—
Commodity derivatives used for hedge accounting, net	26	(26)	(22)	(4)	—	—
Derivatives not used for hedge accounting, net	102	(97)	(86)	(10)	(1)	—
	<u>13,699</u>	<u>(14,791)</u>	<u>(6,048)</u>	<u>(2,876)</u>	<u>(4,842)</u>	<u>(1,025)</u>

The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (note 20) and trade and other payables (note 31) and non-current non-interest bearing liabilities (note 25).

In millions of EUR	Carrying amount	Contractual cash flows	Less than 1 year	1-2 years	2-5 years	2010 More than 5 years
Financial liabilities						
Interest-bearing liabilities	8,726	(10,073)	(1,316)	(830)	(6,087)	(1,840)
Non-interest-bearing liabilities	55	(58)	(38)	(7)	(11)	(2)
Trade and other payables, excluding interest, dividends and derivatives	4,049	(4,073)	(4,073)	—	—	—
Derivative financial (assets) and liabilities						
Interest rate swaps used for hedge accounting, net	123	(87)	(25)	(31)	(78)	47
Forward exchange contracts used for hedge accounting, net	7	(16)	(20)	4	—	—
Commodity derivatives used for hedge accounting, net	7	(7)	(8)	3	(2)	—
Derivatives not used for hedge accounting, net	75	(121)	(77)	(15)	(29)	—
	<u>13,042</u>	<u>(14,435)</u>	<u>(5,557)</u>	<u>(876)</u>	<u>(6,207)</u>	<u>(1,795)</u>

The total carrying amount and contractual cash flows of derivatives are included in trade and other receivables (note 20), other investments (note 17), trade and other payables (note 31) and non-current non-interest-bearing liabilities (note 25).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect HEINEKEN's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

HEINEKEN uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. Generally, HEINEKEN seeks to apply hedge accounting or make use of natural hedges in order to minimise the effects of foreign currency fluctuations in profit or loss.

Derivatives that can be used are interest rate swaps, forward rate agreements, caps and floors, commodity swaps, spot and forward exchange contracts and options. Transactions are entered into with a limited number of counterparties with strong credit ratings. Foreign currency, interest rate and commodity hedging operations are governed by internal policies and rules approved and monitored by the Executive Board.

Foreign currency risk

HEINEKEN is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of HEINEKEN entities. The main currencies that give rise to this risk are the US dollar, euro and British pound.

In managing foreign currency risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in foreign exchange rates would have an impact on profit.

HEINEKEN hedges up to 90 per cent of its mainly intra-HEINEKEN US dollar cash flows on the basis of rolling cash flow forecasts in respect to forecasted sales and purchases. Cash flows in other foreign currencies are also hedged on the basis of rolling cash flow forecasts. HEINEKEN mainly uses forward exchange contracts to hedge its foreign currency risk. The majority of the forward exchange contracts have maturities of less than one year after the balance sheet date.

The Company has a clear policy on hedging transactional exchange risks, which postpones the impact on financial results. Translation exchange risks are hedged to a limited extent, as the underlying currency positions are generally considered to be long-term in nature. The result of the net investment hedging is recognised in the translation reserve as can be seen in the consolidated statement of comprehensive income.

It is HEINEKEN's policy to provide intra-HEINEKEN financing in the functional currency of subsidiaries where possible to prevent foreign currency exposure on subsidiary level. The resulting exposure at Group level is hedged by means of forward exchange contracts. Intra-HEINEKEN financing in foreign currencies is mainly in British pounds, US dollars, Swiss franc and Polish zloty. In some cases HEINEKEN elects to treat intra-HEINEKEN financing with a permanent character as equity and does not hedge the foreign currency exposure.

The principal amounts of HEINEKEN's British pound, Polish zloty, Mexican peso and Egyptian pound bank loans and bond issues are used to hedge local operations, which generate cash flows that have the same respective functional currencies. Corresponding interest on these borrowings is also denominated in currencies that match the cash flows generated by the underlying operations of HEINEKEN. This provides an economic hedge without derivatives being entered into.

In respect of other monetary assets and liabilities denominated in currencies other than the functional currencies of the Company and the various foreign operations, HEINEKEN ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to foreign currency risk

HEINEKEN's transactional exposure to the British pound, US dollar and euro was as follows based on notional amounts. The euro column relates to transactional exposure to the euro within subsidiaries which are reporting in other currencies.

In millions	EUR	GBP	2011 USD	EUR	GBP	2010 USD
Financial Assets						
Trade and other receivables	14	1	12	11	—	6
Cash and cash equivalents	52	60	21	40	—	6
Intragroup assets	4	455	1,384	—	355	1,203
Financial Liabilities						
Interest bearing borrowings	(50)	(1,050)	(3,082)	(54)	(746)	(2,217)
Non-interest-bearing liabilities	—	—	(75)	—	—	—
Trade and other payables	(61)	—	(34)	(46)	—	(2)
Intragroup liabilities	(314)	—	(502)	(259)	—	(490)
Gross balance sheet exposure	(355)	(534)	(2,276)	(308)	(391)	(1,494)
Estimated forecast sales next year	119	16	1,041	129	1	947
Estimated forecast purchases next year	(442)	—	(723)	(463)	(1)	(539)
Gross exposure	(678)	(518)	(1,958)	(642)	(391)	(1,086)
Net notional amount forward exchange contracts	(851)	535	1,161	(915)	396	1,448
Net exposure	(1,529)	17	(797)	(1,557)	5	362
Sensitivity analysis						
Equity	15	—	14	(5)	—	38
Profit or loss	—	—	—	—	(1)	—

Included in the US dollar amounts are intra-HEINEKEN cash flows. Within the net notional amount forward exchange contracts, the cross-currency interest rate swaps of HEINEKEN UK forms the largest component.

Sensitivity analysis

A 10 per cent strengthening of the euro against the British pound and US dollar or in case of the euro a strengthening of the euro against all other currencies as at 31 December would have increased (decreased) equity and profit by the amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

A 10 per cent weakening of the euro against the British pound and US dollar or in case of the euro a weakening of the euro against all other currencies as at 31 December would have had the equal but opposite effect on the basis that all other variables remain constant.

Interest rate risk

In managing interest rate risk, HEINEKEN aims to reduce the impact of short-term fluctuations on earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit.

HEINEKEN opts for a mix of fixed and variable interest rates in its financing operations, combined with the use of interest rate instruments. Currently HEINEKEN's interest rate position is more weighted towards fixed rather than floating. Interest rate instruments that can be used are interest rate swaps, forward rate agreements, caps and floors.

Swap maturity follows the maturity of the related loans and borrowings and have swap rates for the fixed leg ranging from 1.0 to 8.1 per cent (2010: from 2.0 to 8.8 per cent).

Interest rate risk – Profile

At the reporting date the interest rate profile of HEINEKEN'S interest-bearing financial instruments was as follows:

In millions of EUR	2011	2010
Fixed rate instruments		
Financial assets	95	84
Financial liabilities	(5,253)	(5,275)
Interest rate swaps floating to fixed	(1,051)	(456)
	<u>(6,209)</u>	<u>(5,647)</u>
Variable rate instruments		
Financial assets	431	633
Financial liabilities	(3,177)	(2,786)
Interest rate swaps fixed to floating	1,051	456
	<u>(1,695)</u>	<u>(1,697)</u>

Fair value sensitivity analysis for fixed rate instruments

During 2011, HEINEKEN opted to apply fair value hedge accounting on certain fixed rate financial liabilities. The fair value movements on these instruments are recognised in profit or loss. The change in fair value on these instruments was EUR(30) million in 2011 (2010: EUR(67) million), which was offset by the change in fair value of the hedge accounting instruments, which was EUR39 million (2010: EUR70 million).

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below (after tax).

In millions of EUR	100 bp increase	Profit or loss 100 bp decrease	100 bp increase	Equity 100 bp decrease
31 December 2011				
Instruments designated at fair value	29	(29)	29	(29)
Interest rate swaps	(20)	21	(2)	2
Fair value sensitivity (net)	<u>9</u>	<u>(8)</u>	<u>27</u>	<u>(27)</u>
31 December 2010				
Instruments designated at fair value	39	(40)	40	(40)
Interest rate swaps	(25)	27	(4)	5
Fair value sensitivity (net)	<u>14</u>	<u>(13)</u>	<u>36</u>	<u>(35)</u>

As part of the acquisition of Scottish & Newcastle in 2008, HEINEKEN took over a specific portfolio of euro floating-to-fixed interest rate swaps of which currently EUR690 million is still outstanding. Although interest rate risk is hedged economically, it is not possible to apply hedge accounting on this portfolio. A movement in interest rates will therefore lead to a fair value movement in the profit or loss under the other net financing income/(expenses). Any related non-cash income or expenses in our profit or loss are expected to reverse over time.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates constantly applied during the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below (after tax). This analysis assumes that all other variables, in particular foreign currency rates, remain constant and excludes any possible change in fair value of derivatives at period-end because of a change in interest rates. The analysis is performed on the same basis for 2010.

In millions of EUR	100 bp increase	Profit or loss 100 bp decrease	100 bp increase	Equity 100 bp Decrease
31 December 2011				
Variable rate instruments	(20)	20	(20)	20
Net interest rate swaps fixed to floating	8	(8)	8	(8)
Cash flow sensitivity (net)	<u>(12)</u>	<u>12</u>	<u>(12)</u>	<u>12</u>
31 December 2010				
Variable rate instruments	(16)	16	(16)	16
Net interest rate swaps fixed to floating	3	(3)	3	(3)
Cash flow sensitivity (net)	<u>(13)</u>	<u>13</u>	<u>(13)</u>	<u>13</u>

Commodity price risk

Commodity price risk is the risk that changes in commodity prices will affect HEINEKEN'S income. The objective of commodity price risk management is to manage and control commodity risk exposures within acceptable parameters, whilst optimising the return on risk. The main commodity exposure relates to the purchase of cans, glass bottles, malt and utilities. Commodity price risk is in principle addressed by negotiating fixed prices in supplier contracts with various contract durations. So far, commodity hedging with financial counterparties by the Company is limited to the incidental sale of surplus CO2 emission rights and to aluminium hedging and, to a limited extent, gas hedging, which is done in accordance with risk policies. HEINEKEN does not enter into commodity contracts other than to meet HEINEKEN'S expected usage and sale requirements. As at 31 December 2011, the market value of aluminium swaps was EUR(22) million (2010: EUR12 million).

Cash flow hedges

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges, are expected to occur.

In millions of EUR	Carrying amount	Expected cash flows	Less than 1 year	1-2 years	2-5 years	2011 More than 5 years
Interest rate swaps:						
Assets	170	1,904	120	107	726	951
Liabilities	(48)	(1,786)	(136)	(108)	(658)	(884)
Forward exchange contracts:						
Assets	15	1,078	871	207	—	—
Liabilities	(49)	(1,111)	(896)	(215)	—	—
Commodity derivatives:						
Assets	11	11	11	—	—	—
Liabilities	(36)	(36)	(32)	(4)	—	—
	<u>63</u>	<u>60</u>	<u>(62)</u>	<u>(13)</u>	<u>68</u>	<u>67</u>

The periods in which the cash flows associated with forward exchange contracts that are cash flow hedges are expected to impact profit or loss is on average two months earlier than the occurrence of the cash flows as in the above table.

<u>In millions of EUR</u>	<u>Carrying amount</u>	<u>Expected cash flows</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>2010 More than 5 years</u>
Interest rate swaps:						
Assets	89	1,902	95	90	715	1,002
Liabilities	(105)	(1,921)	(158)	(118)	(690)	(955)
Forward exchange contracts:						
Assets	10	1,093	805	288	—	—
Liabilities	(18)	(1,117)	(833)	(284)	—	—
Commodity derivatives:						
Assets	26	27	8	18	1	—
Liabilities	(33)	(33)	(15)	(15)	(3)	—
	<u>(31)</u>	<u>(49)</u>	<u>(98)</u>	<u>(21)</u>	<u>23</u>	<u>47</u>

Fair value hedges/net investment hedges

The following table indicates the periods in which the cash flows associated with derivatives that are fair value hedges or net investment hedges are expected to occur.

<u>In millions of EUR</u>	<u>Carrying amount</u>	<u>Expected cash flows</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>2011 More than 5 years</u>
Interest rate swaps:						
Assets	27	967	171	49	747	—
Liabilities	(136)	(1,059)	(180)	(22)	(857)	—
Forward exchange contracts:						
Assets	—	177	177	—	—	—
Liabilities	(12)	(187)	(187)	—	—	—
	<u>(121)</u>	<u>(102)</u>	<u>(19)</u>	<u>27</u>	<u>(110)</u>	<u>—</u>

<u>In millions of EUR</u>	<u>Carrying amount</u>	<u>Expected cash flows</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>2010 More than 5 years</u>
Interest rate swaps:						
Assets	32	1,009	64	176	769	—
Liabilities	(139)	(1,077)	(26)	(179)	(872)	—
Forward exchange contracts:						
Assets	1	317	317	—	—	—
Liabilities	—	(309)	(309)	—	—	—
	<u>(106)</u>	<u>(60)</u>	<u>46</u>	<u>(3)</u>	<u>(103)</u>	<u>—</u>

Capital management

There were no major changes in HEINEKEN's approach to capital management during the year. The Executive Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business and acquisitions. Capital is herein defined as equity attributable to equity holders of the Company (total equity minus non-controlling interests).

HEINEKEN is not subject to externally imposed capital requirements other than the legal reserves explained in note 22. Shares are purchased to meet the requirements under the Long-Term Incentive Plan as further explained in note 29.

Fair values

The fair values of financial assets and liabilities that differ from the carrying amounts shown in the statement of financial position are as follows:

In millions of EUR	Carrying amount 2011	Fair value 2011	Carrying amount 2010	Fair value 2010
Bank loans	(3,986)	(4,017)	(3,665)	(3,734)
Unsecured bond issues	(2,493)	(2,727)	(2,482)	(2,739)
Finance lease liabilities	(39)	(39)	(95)	(95)
Other interest-bearing liabilities	(2,009)	(2,039)	(1,927)	(2,260)

Basis for determining fair values

The significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above are discussed in note 4.

Fair value hierarchy

IFRS 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

31 December 2010	Level 1	Level 2	Level 3
Available-for-sale investments	81	—	183
Non-current derivative assets	—	142	—
Current derivative assets	—	37	—
Investments held for trading	14	—	—
	95	179	183
Non-current derivative liabilities	—	177	—
Current derivative liabilities	—	164	—
	—	341	—

31 December 2010	Level 1	Level 2	Level 3
Available-for-sale investments	70	—	120
Non-current derivative assets	—	135	—
Current derivative assets	—	10	—
Investments held for trading	17	—	—
	<u>87</u>	<u>145</u>	<u>120</u>
Non-current derivative liabilities	—	291	—
Current derivative liabilities	—	66	—
	<u>—</u>	<u>357</u>	<u>—</u>

In millions of EUR

Available-for-sale investments based on Level 3

	2011	2010
Balance as at 1 January	120	162
Fair value adjustments recognised in other comprehensive income	61	(8)
Disposals	—	(26)
Transfers	2	(8)
Balance as at 31 December	183	120

33. Off-balance sheet commitments

In millions of EUR	Total 2011	Less than 1 year	1-5 years	More than 5 years	Total 2010
Lease & operational lease commitments	503	124	258	121	433
Property, plant & equipment ordered	50	45	2	3	49
Raw materials purchase contracts	3,843	1,413	2,134	296	4,503
Other off-balance sheet obligations	2,589	509	1,277	803	1,943
Off-balance sheet obligations	<u>6,985</u>	<u>2,091</u>	<u>3,671</u>	<u>1,223</u>	<u>6,928</u>
Undrawn committed bank facilities	<u>1,274</u>	<u>233</u>	<u>1,041</u>	<u>—</u>	<u>2,188</u>

HEINEKEN leases buildings, cars and equipment in the ordinary course of business.

Raw material contracts include long-term purchase contracts with suppliers in which prices are fixed or will be agreed based upon predefined price formulas. These contracts mainly relate to malt, bottles and cans.

During the year ended 31 December 2011 EUR241 million (2010: EUR224 million) was recognised as an expense in profit or loss in respect of operating leases and rent.

Other off-balance sheet obligations mainly include distribution, rental, service and sponsorship contracts.

Committed bank facilities are credit facilities on which a commitment fee is paid as compensation for the bank's requirement to reserve capital. For the details of these committed bank facilities see note 25. The bank is legally obliged to provide the facility under the terms and conditions of the agreement.

34. Contingencies

Netherlands

HEINEKEN is involved in an antitrust case initiated by the European Commission for particular violations of the European Union competition law. By decision of 18 April 2007 the European Commission concluded that HEINEKEN and other brewers operating in the Netherlands, restricted competition in the Dutch market during the period 1996 – 1999. This decision follows an investigation by the European Commission that commenced in March 2000. HEINEKEN fully cooperated with the authorities in this investigation. As a result of its decision, the European Commission imposed a fine on HEINEKEN of EUR219 million in April 2007.

On 4 July 2007 HEINEKEN filed an appeal with the European Court of First Instance against the decision of the European Commission as HEINEKEN disagrees with the findings of the European Commission. Pending appeal, HEINEKEN was obliged to pay the fine to the European Commission. This fine was paid in 2007 and was treated as an expense in the 2007 Annual Report.

In its judgment of 16 June 2011 the European Court of First Instance largely upheld the decision of the European Commission. However, the original fine was reduced by EUR21 million. On 26 August 2011 HEINEKEN appealed with the European Court of Justice against the judgment of the European Court of First Instance. A final decision is expected in 2013.

Brazil

As part of the acquisition of the beer operations of FEMSA, HEINEKEN also inherited existing legal proceedings with labour unions, tax authorities and other parties of its, now wholly-owned, subsidiary Cervejarias Kaiser (HEINEKEN Brazil). The proceedings have arisen in the ordinary course of business and are common to the current economic and legal environment of Brazil. The proceedings have partly been provided for, see note 30. The contingent amount being claimed against HEINEKEN Brazil resulting from such proceedings as at 31 December 2011 is EUR848 million. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against HEINEKEN Brazil. However, HEINEKEN believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations. HEINEKEN does not expect any significant liability to arise from these contingencies. A significant part of the aforementioned contingencies (EUR364 million) are tax related and qualify for indemnification by FEMSA, see note 17.

As is customary in Brazil, HEINEKEN Brazil has been requested by the tax authorities to collateralise tax contingencies currently in litigation amounting to EUR280 million by either pledging fixed assets or entering into available lines of credit which cover such contingencies.

Guarantees

<u>In millions of EUR</u>	<u>Total 2011</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total 2010</u>
Guarantees to banks for loans (to third parties)	339	208	91	40	384
Other guarantees	372	128	7	237	271
Guarantees	<u>711</u>	<u>336</u>	<u>98</u>	<u>277</u>	<u>655</u>

Guarantees to banks for loans relate to loans to customers, which are given by external parties in the ordinary course of business of HEINEKEN. HEINEKEN provides guarantees to the banks to cover the risk related to these loans.

35. Related parties**Identification of related parties**

HEINEKEN has a related party relationship with its associates and joint ventures (refer note 16), HEINEKEN Holding N.V., HEINEKEN pension funds (refer note 28), Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA), employees (refer note 25) and with its key management personnel (Executive Board and the Supervisory Board). For our shareholder structure reference is made to the section 'Shareholder Information'.

Key management remuneration

<u>In millions of EUR</u>	<u>2011</u>	<u>2010**</u>
Executive Board	7.5	6.4
Supervisory Board	0.9	0.5
Total	<u>8.4</u>	<u>6.9</u>

Executive Board

The remuneration of the members of the Executive Board comprises a fixed component and a variable component. The variable component is made up of a Short-Term Variable pay and a Long-Term Variable award. The Short-Term Variable pay is based on financial and operational measures and on individual leadership targets as set by the Supervisory Board. It will be subject to the approval of the General Meeting of Shareholders to be held on 19 April 2012. It is partly paid out in shares that are blocked over a period of five calendar years. After the 5 calendar years HEINEKEN will match the blocked shares 1:1 which we refer to as the matching share entitlement. For the Long-Term Variable award see note 29. The separate remuneration report is stated on page 60.

As at 31 December 2011, J.F.M.L. van Boxmeer held 25,369 Company shares and D.R. Hooft Graafland 14,818 (2010: J.F.M.L. van Boxmeer 9,244 and D.R. Hooft Graafland 6,544 shares). D.R. Hooft Graafland held 3,052 shares of HEINEKEN Holding N.V. as at 31 December 2011 (2010: 3,052 shares).

Executive Board

In thousands of EUR	Fixed Salary		Short-Term Variable Pay		Matching Share Entitlement**		Long-Term Variable award*		Pension Plan		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010**
J.F.M.L. van Boxmeer	1,050	950	1,764	1,306	882	653	669	595	590	464	4,955	3,968
D.R. Hoofst Graafland	650	650	780	670	390	335	355	326	399	404	2,574	2,385
Total	1,700	1,600	2,544	1,976	1,272	988	1,024	921	989	868	7,529	6,353

* The remuneration reported as part of LTV is based on IFRS accounting policies and does not reflect the value of vested performance shares.

** Under agenda item 4c of the Annual General Meeting of Shareholders held on 21 April 2011 it was proposed to amend the short-term incentive for the Executive Board. A matching share entitlement was introduced already per pay-out over 2010. In our 2011 financial statement this has been reflected in the 2010 remuneration as the matching entitlement relates to the 2010 performance.

The matching share entitlement for 2010 is based on 2010 performance and was granted upon adoption of the remuneration policy by the Annual General Meeting of Shareholders. The matching share entitlement for 2011 is based on 2011 performance. The granted matching shares vest immediately and as such EUR2.3 million was recognised in the 2011 income statement, consisting of EUR1.0 million for 2010 and EUR1.3 million for 2011.

No vesting occurred under the 2008 – 2010 LTV of the Executive Board.

Supervisory Board

The individual members of the Supervisory Board received the following remuneration:

In thousands of EUR	2011	2010
C.J.A. van Lede	160	67
J.A. Fernández Carbajal**	85	35
M. Das	85	52
M.R. de Carvalho	135	53
J.M. Hessels	75	50
J.M. de Jong	80	53
A.M. Fentener van Vlissingen	80	50
M.E. Minnick	70	48
V.C.O.B.J. Navarre	75	48
J.G. Astaburuaga Sanjinés**	75	35
I.C. MacLaurin*	—	15
Total	920	506

* Stepped down as at 22 April 2010.

** Appointed as at 30 April 2010.

On the Annual General Meeting of Shareholders held on 21 April 2011 it was proposed, under agenda item 5, to increase the remuneration of our Supervisory Board. The fees initially established on 1 January 2006 were updated as per 1 January 2011 to reflect the increased size and global footprint of HEINEKEN and also to align to the market practice in Europe (excl. UK). In 2010 Mr. C.J.A. van Lede and Mr. M.R. de Carvalho both received EUR45 thousand from HEINEKEN Holding N.V. for attending meetings of the board of Directors of HEINEKEN Holding N.V. in their position of member of the Preparatory Committee. As of 2011 this fee is included in the fees as stated above and paid by HEINEKEN N.V.

M.R. de Carvalho held 8 shares of HEINEKEN N.V. as at 31 December 2011 (2010: 8 shares). As at 31 December 2011 and 2010, the Supervisory Board members did not hold any of the Company's bonds or option rights. C.J.A. van Lede held 2,656 and M.R. de Carvalho held 8 shares of HEINEKEN Holding N.V. as at 31 December 2011 (2010: C.J.A. van Lede 2,656 and M.R. de Carvalho 8 shares).

Other related party transactions

In millions of EUR	Transaction value		Balance outstanding as at 31 December	
	2011	2010	2011	2010
Sale of products and services				
To associates and joint ventures	98	93	35	12
To FEMSA	572	298	77	78
	<u>670</u>	<u>391</u>	<u>112</u>	<u>90</u>
Raw materials, consumables and services				
Goods for resale – joint ventures	2	—	—	—
Other expenses – joint ventures	—	—	—	1
Other expenses FEMSA	128	54	13	—
	<u>130</u>	<u>54</u>	<u>13</u>	<u>1</u>

HEINEKEN Holding N.V.

In 2011, an amount of EUR586,942 (2010: EUR7.4 million) was paid to HEINEKEN Holding N.V. for management services for the HEINEKEN Group, the decrease in comparison to 2010 was caused by the acquisition of FEMSA and related services performed by HEINEKEN Holding N.V. in 2010.

This payment is based on an agreement of 1977 as amended in 2001, providing that HEINEKEN N.V. reimburses HEINEKEN Holding N.V. for its costs. Best practice provision III.6.4 of the Dutch Corporate Governance Code of 10 December 2008 has been observed in this regard.

FEMSA

As consideration for HEINEKEN'S acquisition of the beer operations of Fomento Economico Mexicano, S.A.B. de C.V. (FEMSA). FEMSA, became a major shareholder of HEINEKEN N.V. Therefore, several existing contracts between FEMSA and former FEMSA-owned companies acquired by HEINEKEN have become related-party contracts. The total revenue amount related to these related-party relationships amounts to EUR572 million.

36. HEINEKEN entities

Control of HEINEKEN

The shares and options of the Company are traded on Euronext Amsterdam, where the Company is included in the main AEX index. HEINEKEN Holding N.V. Amsterdam has an interest of 50.005 per cent in the issued capital of the Company. The financial statements of the Company are included in the consolidated financial statements of HEINEKEN Holding N.V.

A declaration of joint and several liability pursuant to the provisions of Section 403, Part 9, Book 2, of the Dutch Civil Code has been issued with respect to legal entities established in the Netherlands marked with a • below.

Significant subsidiaries

	Country of incorporation	Ownership interest	
		2011	2010
• HEINEKEN Nederlands Beheer B.V.	The Netherlands	100%	100%
• HEINEKEN Brouwerijen B.V.	The Netherlands	100%	100%
• HEINEKEN CEE Investments B.V.	The Netherlands	100%	100%
• HEINEKEN Nederland B.V.	The Netherlands	100%	100%
• HEINEKEN International B.V.	The Netherlands	100%	100%
• HEINEKEN Supply Chain B.V.	The Netherlands	100%	100%
• Amstel Brouwerij B.V.	The Netherlands	100%	100%
• Amstel Internationaal B.V.	The Netherlands	100%	100%
• Vrumona B.V.	The Netherlands	100%	100%
• Invebra Holland B.V.	The Netherlands	100%	100%
• B.V. Beleggingsmaatschappij Limba	The Netherlands	100%	100%
• Brand Bierbrouwerij B.V.	The Netherlands	100%	100%
• HEINEKEN CEE Holdings B.V.	The Netherlands	100%	100%
• Brasinvest B.V.	The Netherlands	100%	100%
• HEINEKEN Beer Systems B.V.	The Netherlands	100%	100%
Central Europe Beverages B.V.	The Netherlands	72%	72%
HEINEKEN France S.A.S.	France	100%	100%
HEINEKEN UK Ltd.	United Kingdom	100%	100%
Sociedade Central de Cervejas et Bebidas S.A.	Portugal	98.7%	98.7%
Oy Hartwell Ab.	Finland	100%	100%
HEINEKEN España S.A.	Spain	98.7%	98.7%
HEINEKEN Italia S.p.A.	Italy	100%	100%
Athenian Brewery S.A.	Greece	98.8%	98.8%
Brau Union AG	Austria	100%	100%
Brau Union Österreich AG	Austria	100%	100%
Grupa Zywiec S.A.	Poland	61.9%	61.9%
HEINEKEN Ireland Ltd. ¹	Ireland	100%	100%
HEINEKEN Hungária Sörgyárak Zrt.	Hungary	100%	100%
HEINEKEN Slovensko a.s.	Slovakia	100%	100%
HEINEKEN Switzerland AG	Switzerland	100%	100%

Significant subsidiaries continued

	Country of incorporation	Ownership interest	
		2011	2010
Karlovacka Pivovara d.o.o.	Croatia	100%	100%
Mouterij Albert N.V.	Belgium	100%	100%
Ibecor S.A.	Belgium	100%	100%
N.V. Brouwerijen Alken-Maes Brasseries S.A.	Belgium	99.9%	99.9%
LLC HEINEKEN Breweries	Russia	100%	100%
HEINEKEN USA Inc.	United States	100%	100%
HEINEKEN Česká republika a.s.	Czech Republic	100%	100%
HEINEKEN Romania S.A.	Romania	98.4%	98.6%
FCJSC HEINEKEN Breweries	Belarus	100%	100%
OJSC, Rechitsapivo	Belarus	96.2%	95.4%
Commonwealth Brewery Ltd.	Bahamas	75%	100%
Windward & Leeward Brewery Ltd.	St Lucia	72.7%	72.7%
Cervecerias Baru-Panama S.A.	Panama	74.9%	74.9%
Nigerian Breweries Plc.	Nigeria	54.1%	54.1%
Al Ahram Beverages Company S.A.E.	Egypt	99.9%	99.9%
Brasserie Lorraine S.A.	Martinique	100%	100%
Surinaamse Brouwerij N.V.	Surinam	76.2%	76.2%
Cuauhtémoc Moctezuma Holding, S.A. de C.V.	Mexico	100%	100%
Fabrics Monterrey, S.A. de C.V.	Mexico	100%	100%
Silices de Veracruz, S.A. de C.V.	Mexico	100%	100%
Cervejarias Kaiser Brazil S.A.	Brazil	100%	100%
Consolidated Breweries Ltd.	Nigeria	50.5%	50.5%
Brasserie Almaza S.A.L.	Lebanon	67.0%	67.0%
Brasseries, Limonaderies et Malteries 'Bralima' S.A.R.L.	D.R. Congo	95.0%	95.0%
Brasseries et Limonaderies du Rwanda 'Bralirwa' S.A.	Rwanda	75.0%	75.0%
Brasseries et Limonaderies du Burundi 'Brarudi' S.A.	Burundi	59.3%	59.3%
Brasseries de Bourbon S.A.	Réunion	85.7%	85.7%
Sierra Leone Brewery Ltd.	Sierra Leone	83.1%	83.1%
Tango s.a.r.l.	Algeria	100%	100%
Société Nouvelle des Boissons Gazeuses S.A. ('SNBG')	Tunisia	74.5%	74.5%
Société Nouvelle de Brasserie S.A. 'Sonobra'	Tunisia	49.9%	49.9%

¹ In accordance with Article 17 of the Republic of Ireland Companies (Amendment) Act 1986, the Company issued an irrevocable guarantee for the year ended 31 December 2011 and 2010 regarding the liabilities of HEINEKEN Ireland Ltd., HEINEKEN Ireland Sales Ltd., West Cork Bottling Ltd., Western Beverages Ltd., Beamish and Crawford Ltd. and Nash Beverages Ltd as referred to in Article 5(1) of the Republic of Ireland Companies (Amendment) Act 1986.

37. Subsequent events

Acquisition of business in Haiti

On 14 December 2011 HEINEKEN announced its intention to increase its shareholding in Brasserie Nationale d'Haiti S.A. (Brana), the country's leading brewer from 22.5 per cent to 95 per cent. The transaction closed on 17 January 2012 and has been funded from existing resources.

Executive and Supervisory Board statement

The members of the Supervisory Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101 paragraph 2 Civil Code.

The members of the Executive Board signed the financial statements in order to comply with their statutory obligation pursuant to Article 2:101 paragraph 2 Civil Code and Article 5:25c paragraph 2 sub c Financial Markets Supervision Act.

Amsterdam, 14 February 2012

<u>Executive Board</u>	<u>Supervisory Board</u>
Van Boxmeer	Van Lede
Hooft Graafland	Fernández Carbajal
	Das
	de Carvalho
	Hessels
	De Jong
	Fentener van Vlissingen
	Minnick
	Navarre
	Astaburuaga Sanjinés

CORPORATE GOVERNANCE AGREEMENT

relating to

HEINEKEN HOLDING N.V.

and

HEINEKEN N.V.

between

HEINEKEN HOLDING N.V.

HEINEKEN N.V.

L'ARCHE GREEN N.V.

CB EQUITY LLP

and

FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V.

30 April 2010

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THIS CORPORATE GOVERNANCE AGREEMENT (the “**Agreement**”) is dated 30 April 2010 and made by and between:

1. **HEINEKEN HOLDING N.V.**, a public company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, having its official seat in Amsterdam, the Netherlands, and its place of business at Tweede Weteringplantsoen 5, 1017 ZD Amsterdam, the Netherlands (“**Holding**”);
2. **HEINEKEN N.V.**, a public company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, having its official seat in Amsterdam, the Netherlands, and its place of business at Tweede Weteringplantsoen 21, 1017 ZD Amsterdam, the Netherlands (“**HNV**”);
3. **L’ARCHE GREEN N.V.**, a public company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, having its official seat in Amsterdam, the Netherlands, and its place of business at Tweede Weteringplantsoen 5, 1017 ZD Amsterdam, the Netherlands (“**L’Arche Green**”);
4. **CB EQUITY LLP**, a legal entity incorporated under the laws of the United Kingdom, having its registered office at The Quadrant, 118 London Road, Kingston, Surrey, KT2 6QJ, United Kingdom;
5. **FOMENTO ECONÓMICO MEXICANO, S.A.B. DE C.V.**, a legal entity incorporated under the laws of Mexico, having its official seat in Monterrey, Mexico and its place of business at General Anaya 601 Poniente, Colonia Bella Vista, Monterrey, NL 64410, Mexico (“**Femsa**”).

The parties mentioned under numbers 1 through 5 are hereinafter also referred to as the “**Parties**” and each of them a “**Party**”. The parties mentioned under numbers 1 through 3 are hereinafter also referred to as the “**Heineken Parties**”. The parties mentioned under numbers 4 and 5 are hereinafter also referred to as the “**Femsa Parties**”.

WHEREAS:

- A. On 11 January 2010, HNV, Holding, Femsa, Compañía Internacional de Bebidas, S.A. de C.V. (“Compañía Internacional de Bebidas”) and Grupo Industrial Emprex, S.A. de C.V. (“Grupo Industrial”) entered into that certain share exchange agreement (the “**Share Exchange Agreement**”) pursuant to which they agreed to an international business combination involving the beer business of Femsa.
- B. By a letter dated April 14, 2010, Femsa, Compañía Internacional de Bebidas and Grupo Industrial provided notice to HNV and Holding that, pursuant to Section 10.10 of the Share Exchange Agreement, they designated CB EQUITY to be the transferee of the Heineken Exchange Shares, Heineken Holding Exchange Shares and the Allotted Shares, to be delivered pursuant to Section 2.1 of the Share Exchange Agreement.
- C. On the date hereof, the Femsa Parties, Compañía Internacional de Bebidas, Grupo Industrial, HNV and Holding have completed and closed the transactions set forth in the Share Exchange Agreement and, as a result of the transactions contemplated therein, HNV has acquired 100% of the share capital of Femsa Beer Subsidiary and the Femsa Parties (through CB EQUITY) have acquired in exchange therefor (i) 43,009,699 newly issued ordinary shares of HNV plus (ii) 29,172,504 Allotted Shares plus (iii) 43,018,320 newly issued ordinary shares of Holding (the “**Transaction**”).
- D. As a result of the foregoing, the Femsa Parties (through CB EQUITY) hold 7.47% of the HNV Shares (excluding any Allotted Shares) and 14.9% of the Holding Shares.

- E. As provided in the Share Exchange Agreement and as a reflection of the interests of Femsa as a major shareholder in HNV and Holding, the Parties have agreed that Femsa shall be entitled to participation in the governance of HNV and Holding on the basis set out in this Agreement, particularly through the appointment of one member to the board of directors (comprising 5 members) of Holding (“**HH-Board of Directors**”) and through the appointment of two members to the supervisory board (comprising 10 members) of HNV (“**H-Supervisory Board**”).
- F. The governance of Holding and HNV is set forth in the articles of association of Holding (the “**HH-Articles**”) and the articles of association of HNV (the “**H-Articles**”), copies of which are attached hereto as Schedule 3 and Schedule 4.

DECLARE TO HAVE AGREED AS FOLLOWS:

Clause 1 Interpretation

- 1.1 In this Agreement, its recitals and Schedules, unless the context otherwise requires, the terms set out in Schedule 1 shall have the meanings given in Schedule 1.
- 1.2 In this Agreement, its recitals and Schedules, unless indicated to the contrary:
- (a) a reference to a Clause or schedule is a reference to a clause of or schedule to this Agreement;
 - (b) a reference to a document is a reference to that document as from time to time supplemented or varied;
 - (c) the recitals and Schedules form an integral part of this Agreement;
 - (d) the headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement;
 - (e) a reference to a provision of law or applicable regulation shall be construed so as to include a reference to any provision which from time to time, before the date of this Agreement, modified, re-enacted, amended, extended, consolidated or replaced that provision and any subordinate legislation made under any such provision before the date of this Agreement;
 - (f) words denoting the singular number shall include the plural, the masculine gender shall include the feminine gender and the neuter, and vice versa;
 - (g) references to a “company” shall be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established;
 - (h) references to a “person” shall be construed so as to include any individual, firm, company, government, state or agency of a state, local or municipal authority or governmental body or any trust (including any beneficiary of any trust), joint venture, association, partnership or other organisation of any nature (in each case, whether or not having separate legal personality), and that person’s legal personal representatives, successors and lawful assigns; and
 - (i) where, under the terms of this Agreement, any party accepts an obligation to use “best endeavours” in and towards the fulfilment of any objective or occurrence, the full extent of the party’s obligation shall be to

take all such lawful steps which a prudent, determined and reasonable person, intent on the fulfilment of such obligation, would take but without incurring any material cost or material liability which is not reasonably proportionate to the benefit intended to be conferred on the other party by the fulfilment of the obligation.

Clause 2 Composition of the H-Supervisory Board

- 2.1 On 22 April 2010, HNV held and convened a general meeting of shareholders of HNV whereby the shareholders of HNV approved the Transaction in accordance with the H-Articles and article 2:107a of the Dutch Civil Code and voted to appoint two initial Femsa nominees to be members of the H-Supervisory Board (the individuals so appointed and any replacements thereof nominated and appointed in accordance with the provisions of this Agreement, the “**First Femsa H-Representative**”, and the “**Second Femsa H-Representative**”, and together the “**Femsa H-Representatives**”), with such appointment to be effective simultaneously with the closing of the Transaction. The appointments of the initial Femsa H-Representatives nominated by Femsa (being Mr. José Antonio Fernández Carbajal and Mr. Javier Astaburuaga Sanjines) have been approved by the general meeting of shareholders of HNV in accordance with this Agreement and the H-Articles.
- 2.2 The number of members of the H-Supervisory Board shall be determined by the H-Supervisory Board. At the date hereof, the H-Supervisory Board consists of ten (10) members and the Femsa H-Representatives shall be two (2) of such ten (10) members.
- 2.3 For the duration of, and subject to the terms of, this Agreement, Femsa shall be entitled to nominate at least two (2) members for appointment to the H-Supervisory Board, the initial two members being appointed in accordance with Clause 2.1. The Parties acknowledge and agree that the number of H-Supervisory Board members to be nominated by Femsa is based on the assumption that the H-Supervisory Board consists of ten (10) members. Regardless of any increase or decrease in the total number of members of the H-Supervisory Board, and subject to Clause 8 and the remaining provisions of this Agreement, Femsa shall at all times be entitled to nominate the whole number of members which is closest to two-tenths (20%) of the total number of members of the H-Supervisory Board from time to time provided that Femsa shall at all times be entitled to nominate at least two (2) members.
- 2.4 So long as Femsa maintains its right to nominate the Femsa H-Representatives in accordance with this Agreement, Holding shall vote all of its HNV Shares in favour of the proposition that (i) a Femsa H-Representative duly qualified and nominated as a member of the H-Supervisory Board pursuant to this Agreement shall be appointed by the general meeting of shareholders of HNV in accordance with such nomination, (ii) the general meeting of shareholders of HNV shall promptly suspend or dismiss a Femsa H-Representative as member of the H-Supervisory Board if a proposal to that effect is made by Femsa and (iii) subject to Clause 2.8, no Femsa H-Representatives shall be suspended or dismissed by the general meeting of shareholders of HNV as a member of the H-Supervisory Board without the approval of Femsa.
- 2.5 A person can only serve as the First Femsa H-Representative if:
- (a) such person is a member of the board of directors of Femsa; and
 - (b) such person is a party to the Trust Agreement or a Direct Lineal Descendant; and
 - (c) such person’s profile, expertise and background comply with the profile of a member of the H-Supervisory Board, attached as Annex A to the H-Supervisory Board Regulations; and

- (d) such person also serves as the Femsa HH-Representative; and
 - (e) such person shall undertake to be bound by this Agreement and shall sign a copy thereof as proof of his acceptance thereof, substantially in the form of the Joinder attached hereto as Schedule 10 (the “**Form of Joinder**”).
- 2.6 A person can only serve as the Second Femsa H-Representative if:
- (a) such person is either a member of the board of directors of Femsa or a member of the management team of Femsa (not directly responsible for the management of KOF or Femsa Comercio); and
 - (b) such person’s profile, expertise and background comply with the profile of a member of the H-Supervisory Board, attached as Annex A to the H-Supervisory Board Regulations; and
 - (c) such person shall undertake to be bound by this Agreement and shall sign a copy thereof as proof of his acceptance thereof, substantially in the form of the Joinder attached hereto as Schedule 10 (the “**Form of Joinder**”).
- 2.7 The Parties agree that the initial First Femsa H-Representative will be Mr. José Antonio Fernández Carbajal and the initial Second Femsa H-Representative will be Mr. Javier Astaburuaga Sanjines (such nominations to take effect from the date of this Agreement).
- 2.8 In the event that (A) a First Femsa H-Representative fails to meet the qualifications of sub (a), (b) and (c) of Clause 2.5, or (B) a Second Femsa H-Representative fails to meet the qualifications of sub (a) and (b) of Clause 2.6, then Femsa shall procure that such Femsa H-Representative shall promptly resign as a member of the H-Supervisory Board and shall nominate a replacement who meets the relevant qualifications of Clauses 2.5 or 2.6, as applicable.
- 2.9 The First Femsa H-Representative shall be designated as vice-chairman of the H-Supervisory Board.
- 2.10 Each present member and each new member of the H-Supervisory Board shall sign a Form of Joinder to this Agreement as an acknowledgement that he or she is bound by the provisions hereof and that he or she shall fulfil his or her duties and exercise his or her rights in accordance with the provisions of this Agreement and that he or she shall act in a manner consistent with, and as required to give effect to, the provisions of this Agreement.
- 2.11 Holding undertakes to act and vote in any general meeting of shareholders of HNV in the manner consistent with, and as required to give effect to, the provisions of this Agreement.

Clause 3 Composition of the HH-Board of Directors

- 3.1 On 22 April 2010 Holding held and convened a general meeting of shareholders of Holding whereby the shareholders of Holding approved the Transaction in accordance with the HH-Articles and article 2:107a of the Dutch Civil Code and voted to appoint an initial Femsa nominee to be a member of the HH-Board of Directors (an individual so appointed, a “**Femsa HH-Representative**”). The approval described in this Clause 3.1 includes the affirmative support of Holding shareholders Stichting Beheer and Stichting Priors. The appointment of the initial Femsa HH-Representative (being Mr. José Antonio Fernández Carbajal has been approved by the general meeting of shareholders of Holding in accordance with this Agreement and the HH-Articles.

- 3.2 For the duration of and subject to the terms of this Agreement, Femsa shall be entitled to nominate one (1) member for appointment to the HH-Board of Directors, the initial member being appointed in accordance with Clause 3.1. So long as Femsa maintains its right to nominate the Femsa HH Representative in accordance with this Agreement, L'Arche Green shall vote all of its Holding Shares in favour of the proposition that (i) a Femsa HH-Representative duly qualified and nominated as member of the HH-Board of Directors pursuant to this Agreement shall be appointed by the general meeting of shareholders of Holding in accordance with such nomination, (ii) the general meeting of shareholders of Holding shall promptly suspend or dismiss a Femsa HH-Representative as member of the HH-Board of Directors if a proposal to that effect is made by Femsa and (iii) subject to Clause 3.4, no Femsa HH-Representative shall be suspended or dismissed by the general meeting of shareholders of Holding as a member of the HH-Board of Directors without the approval of Femsa. Stichting Beheer and Stichting Prioeres have agreed to give their affirmative support to sub clause (i), (ii) and (iii) of this Clause 3.2 for as long as Femsa maintains its right to nominate the Femsa-HH Representative in accordance with this Agreement.
- 3.3 A person can only serve as Femsa HH-Representative if such person:
- (a) is the First Femsa H-Representative; and
 - (b) otherwise satisfies the professional and reputational standards to be a member of the HH-Board of Directors as the HH-Board of Directors shall determine in its reasonable judgment.
- 3.4 In the event that a Femsa HH-Representative fails to meet the qualifications of sub (a) and (b) of Clause 3.3 then Femsa shall procure that such Femsa HH-Representative shall promptly resign as a member of the HH-Board of Directors and shall nominate a replacement who meets the qualifications of Clause 3.3.
- 3.5 Each present member and each new member of the HH-Board of Directors shall sign a Form of Joinder to this Agreement as an acknowledgement that he or she is bound by the provisions thereof and that he or she shall fulfil his or her duties and exercise his or her rights in accordance with the provisions of this Agreement and that he or she shall act in the manner consistent with, and as required to give effect to, the provisions of this Agreement.
- 3.6 L'Arche Green undertakes to act and vote in any general meeting of shareholders of Holding in the manner consistent with, and as required to give effect to, the provisions of this Agreement.

Clause 4 H-Supervisory Board Regulations

- 4.1 The internal rules of procedure of the H-Supervisory Board are set out in the regulations of the H-Supervisory Board, as set out in Schedule 5 to this Agreement (the "**H-Supervisory Board Regulations**").
- 4.2 Femsa shall use its best endeavours to procure that each Femsa H-Representative in office as a member of the H-Supervisory Board, shall undertake to be bound by the H-Supervisory Board Regulations and, to the extent consistent with the practice of existing board members, shall sign a copy thereof as proof of his acceptance of such regulations. In addition, the Parties agree that each new member of the H-Supervisory Board shall at the time of his appointment sign the H-Supervisory Board Regulations and shall be bound by the provisions thereof and fulfil his duties and exercise his rights in accordance with such H-Supervisory Board Regulations.

Clause 5 Committees

- 5.1 Any Femsa H-Representative shall not sit on more than three committees of the H-Supervisory Board at the same time.
- 5.2 For so long as Femsa has the right to nominate two Femsa H-Representatives, Femsa shall be entitled to nominate one Femsa H-Representative as a member of the Selection and Appointment Committee of the H-Supervisory Board, one Femsa H-Representative as a member of the Audit Committee and one Femsa H-Representative as a member of the Americas Committee.

Clause 6 Composition of the Preparatory Committee of the H-Supervisory Board

- 6.1 From and after the date hereof, the preparatory committee of the H-Supervisory Board (the “**Preparatory Committee**”) shall consist of four (4) members, one of whom shall be the First Femsa H-Representative, acting in his position as vice-chairman of the Supervisory Board.
- 6.2 The internal rules of procedure of the Preparatory Committee are set out in the H-Supervisory Board Regulations and the regulations of the Preparatory Committee, as set out in Schedule 6 to this Agreement (the “**Preparatory Committee Regulations**”).
- 6.3 Femsa shall procure that each successive First Femsa H-Representative who takes up office as a member of the Preparatory Committee shall undertake to be bound by the Preparatory Committee Regulations and shall, to the extent consistent with the practice of existing board members, sign a copy thereof as proof of his acceptance of such regulations. In addition, the Parties agree to procure that each new member of the Preparatory Committee shall at the time of his appointment sign the Preparatory Committee Regulations and shall be bound by the provisions thereof and fulfil his duties and exercise his rights in accordance with such Preparatory Committee Regulations.

Clause 7 Establishment of the Americas Committee

- 7.1 The H-Supervisory Board has established an “Americas Committee” to oversee the strategic direction of the business of the Heineken Group, assess new business opportunities in the Americas region and delegate particular responsibilities to such committee. Only H-Supervisory Board members shall be members of the Americas Committee.
- 7.2 As at the date thereof, the Americas Committee consists of three (3) members and the First Femsa H-Representative shall be chairman of the Americas Committee. The Parties agree that the first such chairman will be Mr. José Antonio Fernández Carbajal (such nomination to take effect from the date of this Agreement).
- 7.3 The internal rules of procedure of the Americas Committee are set out in the regulations of the Americas Committee, a copy of which is attached hereto as Schedule 7 (the “**Americas Committee Regulations**”), which have been adopted by the H-Supervisory Board.

Clause 8 Loss of Nomination Rights

- 8.1 Femsa shall maintain the right to nominate two members of the H-Supervisory Board and all of its ancillary governance rights in relation to HNV, unless and until any of the following events occur:
 - (i) Femsa or its Affiliates cease to be the legal or Beneficial Owner of an Economic Interest representing not less than 14% of HNV;

- (ii) either Femsa Party fails to be in material compliance with the Principal Terms of this Agreement;
- (iii) there is a loss of Control of Femsa by the Voting Trust (including without limitation the termination or a declaration of nullity of the Voting Trust by a competent court) except in circumstances where (A) all of the interests of the Voting Trust in Femsa are acquired by some or all of the Trust Beneficiaries or any vehicle or undertaking which is owned by, or holds its interests in, Femsa exclusively on behalf of some or all of the Trust Beneficiaries or (B) the Trust Beneficiaries otherwise continue to Control Femsa;
- (iv) any person other than the Trust Beneficiaries becomes a party to the Trust Agreement or enters into any other arrangement pursuant to which such person holds or shares voting power over any of the shares in Femsa which are subject to the Trust Agreement, unless (A) one or more of the Trust Beneficiaries collectively continue to have the power, directly or indirectly, to control the election of a majority of the directors of Femsa and (B) none of the Trust Beneficiaries has any agreement or arrangement with any such other person (other than a nominee or Trust Beneficiary) the effect of which would be to give such other person the ability to exercise voting power over the shares in Femsa which are subject to the Trust Agreement; or
- (v) a Change of Control occurs,

and, subject to Clauses 8.2 and 8.3, upon the occurrence of any event described in subsections (i) through (v) of this Clause 8.1,

(a) Femsa shall procure that the Femsa H-Representatives shall promptly resign as members of the H-Supervisory Board; and

(b) Femsa shall immediately cease to be entitled to nominate any persons for election to the H-Supervisory Board, provided, however that if:

(A) an event occurs under Clause 8.1(iii) and/or (iv); and/or

(B) a Change of Control occurs in which the person acquiring Control of Femsa, together with any Affiliates of such acquiring person, is not engaged (and does not thereafter become engaged) anywhere in the world in the manufacture of the Heineken Products (as such term is defined in the Share Exchange Agreement), then

Femsa shall maintain the right to appoint one Femsa nominee to be a member of the H-Supervisory Board (being the Second Femsa H-Representative) for so long as Femsa is not in breach of Clauses 8.1(ii) and (iii) and Clause 8.2.

8.2 For so long as the Femsa Parties and/or their Affiliates are the legal or Beneficial Owner of an Economic Interest representing not less than 7% of HNV, Femsa shall maintain the right to nominate one member (and only one member) of the H-Supervisory Board (being the First Femsa H-Representative) and all of its ancillary governance rights in relation to HNV (as set out in Clauses 5-7). The events described in this Clause 8.2 and Clause 8.1(ii) shall apply *mutatis mutandis* with the same ramifications as described in sub (a) and (b) of Clause 8.1.

- 8.3 If at any time the aggregate shareholdings of the Femsa Parties and/or their Affiliates shall decrease below the threshold set out in Clauses 8.1(i) or 8.2 (as the case may be), Femsa shall have 30 (thirty) Trading Days after the occurrence of such decrease in which to remedy any such decrease and provided that the shareholding is restored to such threshold percentage or more within 30 (thirty) Trading Days after the occurrence of such decrease, Femsa's nomination rights pursuant to Clause 2 and all ancillary governance rights shall be restored and for the purpose of any Clause in this Agreement, Femsa shall be deemed to have retained at all times its right to nominate two members of the H-Supervisory Board and all ancillary governance rights (as set out in Clauses 5-7).
- 8.4 Femsa shall maintain the right to nominate a member to the HH-Board of Directors unless and until it ceases to have the right to appoint the First Femsa H-Representative under Clauses 8.2 and 8.3. Upon the loss of such right:
- (a) Femsa shall procure that the Femsa HH-Representative shall promptly resign as member if the HH Board of Directors; and
 - (b) Femsa shall immediately cease to be entitled to nominate any persons for election as member on the HH-Board of Directors.

Clause 9 Standstill

- 9.1 Except as provided in Clause 9.2 and Clause 9.3, the Femsa Parties agree and undertake towards HNV, Holding and L'Arche Green that they shall not, and shall procure that no member of the Femsa Group shall, directly or indirectly, acquire, offer or propose to acquire or agree to acquire, whether by purchase, tender or exchange offer, through the acquisition of control of another person (whether by way of merger, consolidation or otherwise), by joining a partnership, syndicate or other group or otherwise, an Economic Interest of more than 20% in HNV or more than 20% of all outstanding Holding Shares (in each case, such capped percentages to be referred to as a "**Voting Ownership Cap**") and, in relation to HNV, such Voting Ownership Cap shall be deemed to take account of all HNV Shares held as treasury shares, it being understood that for purposes of this Agreement, such ownership includes ownership by any member of the Femsa Group who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares (i) voting power which includes the power to vote, or to direct the voting of, such security; and/or (ii) investment power which includes the power to dispose, or to direct the disposition, of such security (in either case, "**Beneficial Ownership**"); provided that for purposes of determining Beneficial Ownership, a person shall be deemed to be the Beneficial Owner of any securities which may be acquired by such person pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise.
- 9.2 If at any time the Femsa Group exceeds the relevant Voting Ownership Cap, then the Femsa Parties shall, as soon as is reasonably practicable (but in no event longer than sixty (60) days after the occurrence of such event), forthwith sell, transfer, assign or otherwise dispose of ("**Transfer**") such number of Shares sufficient to reduce the amount of HNV Shares or Holding Shares owned by them and members of the Femsa Group so as to comply with the applicable Voting Ownership Cap.
- 9.3 Notwithstanding any other provision of this Agreement, in no event may either Femsa Party or any members of the Femsa Group, directly or indirectly, including through any agreement or arrangement, exercise any voting rights, during the term of this Agreement, in respect of any Shares Beneficially Owned by either of them and any members of the Femsa Group, if and to the extent such shares are in excess of the applicable Voting Ownership Cap.

- 9.4 Neither Femsas Party shall be considered in breach of this Agreement and the provisions set out in Clauses 9.1 through 9.3 of this Agreement shall not apply:
- (a) if as a result of a share buy back programme, repurchase or cancellation of Shares by HNV or Holding, the Femsas Parties and any member of the Femsas Group are in possession of Shares in excess of the applicable Voting Ownership Cap; or
 - (b) if a Third Party has announced or made an Offer for all of the HNV Shares or Holding Shares not then held by the Third Party or any person acting in concert with the Third Party and which is recommended to the shareholders of HNV by the H-Supervisory Board or to the shareholders of Holding by the HH-Board of Directors and which would (were such Offer to become or be declared unconditional in all respects) result in the Third Party and any person acting in concert with the Third Party in the aggregate owning more than 50% of all issued and outstanding HNV Shares or Holding Shares as the case may be.

Clause 10 Reverse Standstill

The Heineken Parties shall not (and shall procure that no member of the Heineken Group shall) without the written consent of Femsas, directly or indirectly, either alone or acting in concert with others, acquire any interest in any of the securities of Femsas; provided however that the restriction set out in this Clause 10 shall no longer apply if a Third Party Unconnected With HNV makes an Offer for Femsas which, if implemented, would result in a Change of Control.

Clause 11 Restrictions on Transfer

- 11.1 The right of either Femsas Party and/or any member of the Femsas Group to Transfer their Shares is subject to the restrictions set forth in this Clause 11, and no Transfer of such Shares by a Femsas Party or any member of the Femsas Group may be effected except in compliance with this Clause 11.
- 11.2 From the date hereof through and including the fifth anniversary of this Agreement, without the prior written consent of HNV and Holding, each Femsas Party shall not, and the Femsas Parties shall procure that any member of the Femsas Group shall not, Transfer, or agree to Transfer, directly or indirectly, any of their Shares; provided that the foregoing restriction shall not at any time be applicable to:
- (a) transfers to either Femsas Party or to an Affiliate of Femsas which, in either event, signs a deed of adherence to be bound by this Agreement as fully as if it were an initial signatory hereto; or
 - (b) transfers from and after the third anniversary of this Agreement provided, however, that the Femsas Parties and/or Femsas's Affiliates shall not Transfer HNV Shares and/or Holding Shares representing more than 1% of all outstanding Shares of each of Holding and HNV in any calendar quarter; or
 - (c) transfers from and after the third anniversary of this Agreement, in any private block sale outside the facilities of a stock exchange so long as L'Arche Green (as to Holding Shares) or Holding (as to HNV Shares) is first given the opportunity to acquire such shares at the market price thereof upon written notice (the "Sale Notice") not less than 30 (thirty) business days prior to the proposed date of sale, in accordance with Clause 11.4; or

- (d) pledges or grants of a security interest in any Shares in favour of financial institutions and, in case such security rights would be foreclosed in accordance with their terms and conditions, any Transfers resulting therefrom, provided that:
 - i. such Transfers are notified in writing to, and acknowledged by, HNV or Holding (as the case may be) and HNV or Holding (as the case may be) undertakes to give such acknowledgement promptly provided that such Transfers are in compliance with the terms of this Clause 11.2(d); and
 - ii. are made in the context of any arrangement or agreement that is on arm's length terms; and
 - iii. the Femsa Parties shall grant such security interests only on terms that, in the event of any foreclosure or exercise by such financial institution of such security interest, the financial institution shall ensure any disposals of the Shares are effected via Orderly Market Arrangements; or
 - (e) any disposal pursuant to an offer by Holding or HNV made generally to the public to (re)purchase Shares; or
 - (f) any disposal required by law or by any competent authority and which is expressed to be required in relation to the Shares; or
 - (g) from and after the first anniversary of this Agreement, any disposal required in order to:
 - i. maintain Femsa's exemption from, or in order for Femsa otherwise not to be subject to, the U.S. Investment Company Act of 1940 ("**40 Act**"), as amended; or
 - ii. avoid classification as a "passive foreign investment company" ("**PFIC**") within the meaning of Section 1297 of the U.S. Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder;in each case subject to such disposals being effected via Orderly Market Arrangements, and provided that Femsa has not failed to use commercially reasonable endeavours to maintain its exemption from the 40 Act or to avoid becoming a PFIC; or
 - (h) any disposal to ensure that Femsa or its Affiliates (either alone or together with its Affiliates or any person acting in concert with each of them) is not obliged or required to make any mandatory offer to acquire Shares.
- 11.3 The restrictions set out in Clause 11.2 shall not apply in the event that a Third Party has announced or made an Offer for all of the HNV Shares or Holding Shares, as the case may be, not then held by the Third Party or any person acting in concert with the Third Party and which would (were such Offer to become or be declared unconditional in all respects) result in the Third Party and any person acting in concert with the Third Party in the aggregate owning more than 50% of all HNV Shares or Holding Shares, as the case may be.
- 11.4 In the event of any sale contemplated under Clause 11.2(c) hereof, the applicable Femsa Party shall give the Sale Notice stating its bona fide intention to sell such Holding Shares and/or HNV Shares and the number of such Shares to be so sold and:
- (a) within twenty (20) days after receipt of a Sale Notice, any Heineken Party may elect to purchase or otherwise acquire, all or any portion of the Shares described in the Sale Notice. The price at which the Heineken Parties may purchase or otherwise acquire such Shares shall be the average of the Volume Weighted Average Prices of the relevant Shares, as applicable, for the seven consecutive Trading Day period ending on the Trading Day immediately preceding the date of the Sale Notice, and shall be paid in Euro; and

- (b) if all the Shares described in the Sale Notice are not elected to be purchased by the Heineken Parties as provided above, the applicable Femsa Party and/or any member of the Femsa Group may, during the sixty (60) day period following the expiration of the period to elect to purchase the Shares described in Clause 11.4(a), offer and sell the remaining portion of the Shares to any person in a private block sale as described in Clause 11.2(c). If the applicable Femsa Party and/or any member of the Femsa Group do not sell the remaining Shares within such sixty (60) day period, the rights provided to the Heineken Parties hereunder shall be deemed to be revived and any sale of Shares by the Femsa Parties and/or any member of the Femsa Group shall not be permitted except in accordance with this Clause 11.4.
- 11.5 Following the third anniversary of the date of this Agreement, Femsa shall be permitted to dividend or distribute to its shareholders any Holding Shares and/or HNV Shares without the prior written consent of Holding or HNV. Upon any such distribution which results in the Voting Trust being the legal or Beneficial Owner of an Economic Interest representing 7% or more of HNV and the Voting Trust entering into a deed of adherence to be bound to this Agreement as fully as if it were an initial signatory hereto, the Voting Trust shall be vested in all of the rights of Femsa to appoint the First Femsa H-Representative, who shall be appointed as member of the H-Supervisory Board and a member of the HH-Board of Directors. The Voting Trust shall maintain the right to nominate the First Femsa H-Representative and all of the governance rights in relation to HNV ancillary thereto, unless and until any of the following events occur:
- (a) the Voting Trust ceases to be the legal or Beneficial Owner of an Economic Interest representing 7% or more of HNV; or
 - (b) the Voting Trust fails to be in material compliance with the Principal Terms of this Agreement (via the deed of adherence); or
 - (c) the Voting Trust is terminated, dissolved or declared null by a competent court or otherwise, except in circumstances where (A) all of the interests of the Trust in HNV are acquired by some or all of the Trust Beneficiaries or any vehicle or undertaking which is owned by, or holds its interests in the HNV Shares exclusively on behalf of some or all of the Trust Beneficiaries, or (B) the Trust Beneficiaries otherwise continue to control the exercise of the votes of at least 67% of the Shares previously held by the Voting Trust; or
 - (d) any person other than the Trust Beneficiaries becomes a party to the Trust Agreement or enters into any other arrangement pursuant to which such person holds or shares voting power over any of the HNV Shares unless one or more of the Trust Beneficiaries continue(s) to control the exercise of the votes of at least 67% of the Shares held by the Voting Trust.
- 11.6 Each of HNV and Holding (as the case may be) undertakes to maintain the exemption from registration under Rule 12g3-2b of the U.S. Securities Exchange Act 1934, as amended, if they continue to be eligible therefor, unless either HNV or Holding elect to become subject to the periodic reporting or other informational requirements under the U.S Securities Exchange Act 1934, as amended, in which case it will file reports and other information required thereunder with the U.S Securities and Exchange Commission.
- 11.7 If at any future date Femsa determines, subject to the terms of this Agreement, to dividend or distribute any of the Shares then HNV and Holding shall at the request of Femsa discuss the provision of reasonable assistance to Femsa in connection with compliance with any regulatory requirements of such dividend or distribution and HNV and Holding shall provide the reasonable assistance but this shall not require HNV or Holding to become subject to the registration, reporting or listing requirements of any jurisdiction or stock exchange.

Clause 12 Femsma Anti-Dilution Rights

- 12.1 From the date of this Agreement, if Holding or HNV determines to issue any Shares for cash, it shall, unless Femsma otherwise gives its prior written consent, offer to the Femsma Parties the right to subscribe, on the same terms, including as to timing, as others to whom such Shares are offered for subscription, for such number of those Shares as is equal to the Femsma Parties' percentage shareholding in Holding or HNV (as the case may be) immediately prior to such issue, provided that in the event that the total number of Shares to be offered to the Femsma Parties includes a fraction, such number shall be rounded up to the nearest whole number.
- 12.2 The provisions of Clause 12.1 shall not apply in relation to:
- (a) any issue of Shares for a consideration other than cash (other than an issue of Shares in exchange for the shares of a vehicle the assets of which comprise substantially cash); or
 - (b) the grant of options or awards under any share incentive schemes and the issue of Shares pursuant to the exercise of rights or grant of awards under such schemes; or
 - (c) the issue of Shares to directors on the boards of Holding and/or HNV pursuant to their terms of appointment.
- 12.3 If any mandatory merger or other regulatory clearances are required in any relevant jurisdiction before either Femsma Party (or any of their Affiliates) can obtain the benefit of any provision of this Clause 12 Holding and HNV shall, within the constraints of its timetable for the relevant issue, use all reasonable endeavours to obtain, and shall provide Femsma (or any of its Affiliates) with all reasonable assistance in obtaining, such mandatory merger or other regulatory clearances.
- 12.4 Neither Holding nor HNV shall propose or recommend or vote in favour of or otherwise support any amendment to (i) the HH-Articles or (ii) the H-Articles, the H-Supervisory Board Regulations, the Americas Committee Regulations or the Preparatory Committee Regulations respectively which would be inconsistent with, or in violation of, any of the provisions of this Agreement.

Clause 13 [deliberately blank]

Clause 14 Non-Solicit

Until the second anniversary of the date of this Agreement, HNV shall not and shall procure that its Affiliates shall not solicit, recruit or hire any person who at any time on or after the date of this Agreement is a Femsma Group Employee (as hereinafter defined); provided, that the foregoing shall not prohibit (i) a general solicitation to the public of general advertising or similar methods of solicitation by search firms not specifically directed at Femsma Group Employees or (ii) HNV or any of its Affiliates from soliciting, recruiting or hiring any Femsma Group Employee who has ceased to be employed or retained by Femsma, or any of its Affiliates for at least 12 months, except as provided in the Ancillary Agreements (as defined in the Share Exchange Agreement). For purposes of this Clause 14, "**Femsma Group Employees**" means, collectively, officers, directors and senior or managerial executives of Femsma and its Affiliates, excluding the Femsma Beer Subsidiary and its Subsidiaries.

Clause 15 Term

At such time as Femsa and the Voting Trust cease to have the right to nominate any Femsa H-Representatives or Femsa HH-Representative, then:

- (a) without prejudice to Clause 8.3, Femsa or the Voting Trust (as the case may be) shall, if so requested by HNV or Holding respectively, procure forthwith the resignation of the Femsa H-Representative(s) or Femsa HH-Representative (as the case may be) from the H-Supervisory Board and the HH-Board of Directors, respectively; and
- (b) Clauses 9, 18 and 20 shall continue in effect for the periods stated therein and if no period is stated for as long as Femsa and its Affiliates own any HNV Shares, and all other provisions of this Agreement shall cease to be of any effect, provided that Clause 11 shall also continue in effect for the period stated therein if Femsa and the Voting Trust ceases to have the right to nominate any Femsa H- Representatives or Femsa HH-Representative solely as a result of being in breach of Clause 8.1(ii).

Clause 16 Representations and Warranties

16.1 Each Femsa Party, hereby represents and warrants as follows:

- (a) Authorization; Enforceability. Such Femsa Party has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement have been duly authorized by all necessary action on the part of such Femsa Party, to the extent required by such Femsa Party. This Agreement constitutes the legal, valid and binding obligation of such Femsa Party, enforceable against such Femsa Party in accordance with its terms.
- (b) No Conflicts, Consents.
 - 1. The execution, delivery and performance by such Femsa Party of this Agreement does not and will not: (i) conflict with or violate the certificate of incorporation or bylaws or equivalent organizational documents of such Femsa Party; (ii) conflict with or violate any law applicable to such Femsa Party or by which any property or asset of such Femsa Party is bound or affected; or (iii) result in any breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under or require any consent of or notice to any person pursuant to any note, bond, mortgage, indenture, agreement, lease, license, permit, franchise, instrument, obligation or other contract to which such Femsa Party is a party or by which such Femsa Party or any of its properties, assets or rights are bound or affected.
 - 2. Except as otherwise contemplated under the Share Exchange Agreement, such Femsa Party is not required to file, seek or obtain any notice, authorization, approval, order, permit or consent of or with any governmental authority in connection with the execution, delivery and performance by Femsa of this Agreement.

16.2 Each Heineken Party, severally and not jointly, represents and warrants as follows:

- (a) Authorization; Enforceability. Such Heineken Party has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery of this Agreement have been duly authorized by all necessary action on the part of such Heineken Party, to the extent required by such Heineken Party. This Agreement constitutes the legal, valid and binding obligation of such Heineken Party, enforceable against such Heineken Party in accordance with its terms.

(b) No Conflicts, Consents.

1. The execution, delivery and performance by such Heineken Party of this Agreement does not and will not: (i) conflict with or violate the certificate of incorporation or bylaws or equivalent organizational documents of such Heineken Party; (ii) conflict with or violate any law applicable to such Heineken Party or by which any property or asset such Heineken Party bound or affected; or (iii) result in any breach of, constitute a default (or an event that, with notice or lapse of time or both, would become a default) under or require any consent of or notice to any Person pursuant to any note, bond, mortgage, indenture, agreement, lease, license, permit, franchise, instrument, obligation or other contract to which such Heineken Party is a party or by which such Heineken Party or any of its properties, assets or rights are bound or affected.
2. Except as otherwise contemplated under the Share Exchange Agreement, such Heineken Party is not required to file, seek or obtain any notice, authorization, approval, order, permit or consent of or with any governmental authority in connection with the execution, delivery and performance by such Heineken Party of this Agreement.

Clause 17 Information

17.1 Each Femsas Party, on the one hand, and Holding and HNV, on the other hand, will supply to the other such information as is reasonably required by the other for accounting, tax, disclosure or other purposes at such times as required to comply with regulatory requirements or as reasonably requested by the other (it being understood in the case of information requested by the Femsas Parties or Holding or HNV that such other information shall be in the form reasonably determined by a Femsas Party or Holding or HNV (as the case may be)) to be appropriate in the circumstances taking into account the purpose for which such Femsas Party or Holding or HNV requires the information. Notwithstanding the foregoing, HNV and Holding shall not be required to supply information requested by a Femsas Party that, in the reasonable opinion of Holding or HNV, as the case may be, or the reasonable opinion of their respective legal counsel, (i) qualifies as "inside information" within the meaning of the Dutch Act on Financial Supervision ("DFSA") or (ii) the supply of which would be in breach of article 5:57 of the DFSA.

17.2 Subject to Clause 17.1, Femsas shall have the right to receive copies of the following:

- (a) the notice and description of any arrangements between L'Arche Green and Holding on the one hand and HNV and any members of the Heineken Group on the other hand; and
- (b) the information set out in Schedule 9;

and the Parties will discuss in good faith the manner in which Femsas will receive the information it requires to reconcile HNV and Holding's financial information for the financial year 2010 with Mexican GAAP for the purposes of its own financial reporting for that financial year.

17.3 Each of the Femsas H-Representatives and the Femsas HH-Representative understands and acknowledges that his ability to communicate any information acquired by him in his capacity as a board member in relation to Holding or HNV and any members of the Heineken Group to Femsas or any Affiliate of Femsas (as the case may be) is subject always (i) the limitation of article 5:57 of the DFSA and (ii) there being no ponderous interest within the meaning of article 2:107 of the Dutch Civil Code of HNV or Holding, as the case may be, against such communication and always provided that Femsas or such Affiliate observes its duty of confidentiality under Clause 18. A protocol shall implement the provisions of this Clause 17.3 and detail when and to what extent the Femsas H-Representatives and the Femsas HH-Representative can share information with Femsas in

accordance with the provisions of this Clause 17.3, their fiduciary duties as a board member of Holding or HNV and their duty of confidentiality contained in Clause 18.3. As soon as practicable following the Closing Date, the Parties shall enter into good faith negotiations to agree upon such protocol.

- 17.4 Holding and HNV shall supply to Femsa (i) as soon as available, their audited consolidated financial statements for each financial year and their consolidated financial statements for each semi-annual period (including a quarterly breakdown) and (ii) at the same time as they are dispatched, all documents made available to their shareholders (or any class of them) or their creditors generally. For the avoidance of doubt, Holding and HNV acknowledge that Femsa may be required to make filings with regulatory authorities in the United States and Mexico that include such audited consolidated financial statements and will cooperate with Femsa, at Femsa's expense, in (1) providing Femsa reasonable assistance in connection with any required reconciliation of such statements and (2) obtaining any consents from their auditors in connection with such filings.

Clause 18 Confidentiality

- 18.1 Subject to Clause 18.2, the Parties shall not disclose to any person the fact that they have entered into this Agreement, or any of its terms, conditions or other facts related to this Agreement and shall keep confidential all information of a confidential nature regarding the business and financial affairs of the Heineken Group or the Femsa Group (including for the avoidance of doubt, information provided under Clause 17 and/or Schedule 9).
- 18.2 Each Party shall be entitled to disclose confidential information relating to the Heineken Group or the Femsa Group, as applicable, (including, without limitation, information supplied to it pursuant to Clause 17 and/or Schedule 9):
- (a) to any of its officers, employees, auditors, bankers or professional advisers, whose position makes it necessary or desirable to know that information in order to assist Femsa or HNV or Holding, as applicable; provided that the recipient thereof agrees to be bound by the same duty of confidentiality as applies to the disclosing Party and that such Party shall be responsible for any breach of confidentiality by such recipient; or
 - (b) if such information has ceased to be confidential as a result of having become public without breach of this Agreement or any other duty of confidentiality relating to that information of which the relevant Party was aware; or
 - (c) as may be required by law, rules or regulations or by any relevant securities exchange or governmental authority, regulatory body or antitrust authority to which Femsa or HNV or Holding is subject (wherever situated), including information required to be disclosed in any shareholder circular, or for tax or accounting purposes, whether or not the requirement for disclosure of such information has the force of law; or
 - (d) as may be required for the purpose of any arbitral or judicial proceedings arising out of this Agreement or the Related Agreements; or
 - (e) with the consent of the board of directors of the other Party,
- 18.3 Subject to Clause 18.4, the Parties acknowledge that in accordance with applicable law and regulations, all members of the HH-Board of Directors and the H-Supervisory Board shall treat all information and

documentation acquired in connection with their service or position as a member of the HH-Board of Directors or the H-Supervisory Board, as the case may be, with the necessary discretion and, in the case of confidential information, with appropriate confidentiality. Except as permitted to the Femsas H-Representatives and the Femsas HH-Representative under Clause 17.3, confidential information shall not be disclosed by any such member outside the HH-Board of Directors or the H-Supervisory Board, made public or otherwise made available to third parties, even after resignation from the HH-Board of Directors or the H-Supervisory Board, unless such confidential information can be disclosed by any Party pursuant to Clause 18.2.

- 18.4 Without prejudice to Clause 17.3, the Parties furthermore acknowledge that, in the course of the performance of their respective duties as members of the HH-Board of Directors or the H-Supervisory Board, the Femsas HH-Representative and the Femsas H-Representatives may acquire competitively or commercially sensitive information regarding the business of HNV and that, in order to safeguard such competitively or commercially sensitive information the HH-Board of Directors and the H-Supervisory Board may implement such procedures and screens as they shall in their reasonable judgment upon the advice of legal counsel deem reasonably necessary.

Clause 19 Miscellaneous

- 19.1 Immediately after the date hereof, the following documents shall, insofar as necessary, be amended in order to give effect to the agreements set out in this Agreement:
- (a) the H-Articles; and
 - (b) the H-Supervisory Board Regulations; and
 - (c) the Preparatory Committee Regulations; and
 - (d) the HH-Articles; and
 - (e) the Americas Committee Regulations.
- 19.2 HNV and Holding undertake towards Femsas to take all actions that are necessary or that would help to ensure that the composition of the HH-Board of Directors, the H-Supervisory Board, the Preparatory Committee and the Americas Committee shall be in accordance with the terms and conditions set out in this Agreement and that this Agreement is otherwise implemented in full upon closing of the Transaction.
- 19.3 In the event of a conflict between the provisions of this Agreement, the HH-Articles and the H-Articles (and any other document in connection with the Transaction), all Parties shall use their best endeavours to procure that the HH-Articles and the H-Articles will be amended to reflect the contents of this Agreement to the extent permitted under the laws of the Netherlands.
- 19.4 So long as each Femsas Party is in compliance with the terms of this Agreement, HNV, Holding and L'Arche Green shall procure that without the approval of the Femsas HH-Representative or the Femsas H-Representative, as applicable, neither the HH-Articles nor the H-Articles shall be amended in a manner that would adversely affect or diminish the rights of Femsas under this Agreement.
- 19.5 Each Party waives any rights that it may have under article 6:228, article 6:265 or article 6:230 of the Dutch Civil Code or otherwise, to rescind (*ontbinden*), to annul (*vernietigen*) to amend (*wijzigen*) or to terminate (*opzeggen*) this Agreement in whole or in part.

- 19.6 Neither this Agreement nor any of the rights, interests or obligations under it may be assigned by any of the Parties hereto (whether by operation of law or otherwise) without the prior written consent of the other Parties hereto. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the Parties to this Agreement and their respective successors and permitted assigns.
- 19.7 Nothing in this Agreement, express or implied, is intended to or shall confer upon any person other than the Parties and their respective successors and permitted assigns any legal or equitable right, benefit or remedy of any nature under or by reason of this Agreement.
- 19.8 The delivery of fully executed counterparts of this Agreement by each Femsma Party (and any assignee of Femsma pursuant to Section 10.10 of the Share Exchange Agreement) and each Heineken Party shall be a condition to the closing of the Transaction under the Share Exchange Agreement. Unless and until the closing of the Transaction under the Share Exchange Agreement, this Agreement shall be without any force or effect.
- 19.9 The Parties agree that irreparable damage would occur in the event any provision of this Agreement were not performed in accordance with the terms hereof and that the Parties shall be entitled to specific performance (*nakoming*) of the terms hereof, in addition to any other remedy at law or equity.
- 19.10 For the avoidance of doubt, the Parties hereby confirm that the scope of this Agreement is limited to only those matters expressly provided for herein and that the purpose of the Agreement is for HNV and Holding to allow Femsma participation in the governance of Holding and HNV on the basis set out in this Agreement and in consideration for Femsma's willingness to combine its beer business with that of HNV in exchange for Shares in accordance with the Share Exchange Agreement and the other transaction documents pursuant thereto. The Parties hereby confirm that other than the obligation of L'Arche Green or Holding, as the case may be, to support the appointment and functioning of the Femsma H-Representatives and the Femsma HH-Representative in accordance with the terms of this Agreement, this Agreement does not have as its scope or purpose, and does not contain any provisions that would:
- (a) give either Femsma Party or the Femsma Group any right or control or influence or consultation right or other form of cooperation with L'Arche Green or Holding as to the way L'Arche Green or Holding exercise their governance rights in relation to Holding or HNV;
 - (b) limit L'Arche Green or Holding in exercising all rights attached to their Holding Shares or HNV Shares or taking all other strategic and other steps in relation to Holding or HNV independently and at their sole discretion and without any requirement to consult or cooperate with anyone such as Femsma or the Femsma Group and nothing in this Agreement shall restrict the powers of L'Arche Green or Holding in this respect;
 - (c) give L'Arche Green or Holding any right or control or influence or other form of cooperation with Femsma or the Femsma Group as to the way Femsma or the Femsma Group will exercise the voting rights attached to their Holding Shares or HNV Shares or as to how the Femsma H-Representatives or the Femsma HH-Representative will perform their duties;
 - (d) limit Femsma or the Femsma Group in exercising all voting rights attached to their Holding Shares or HNV Shares independently and at their sole discretion and without any requirement to consult or cooperate with anyone such as L'Arche Green or Holding and nothing in this Agreement shall restrict the powers of Femsma or the Femsma Group in this respect; or

- (e) create a cooperation among the Parties with the objective that Femsa or the Femsa Group, or any of Femsa and Holding or Femsa and L'Arche Green acting jointly will acquire any preponderant influence (*overwegende zeggenschap*) within the meaning of the DFSA over HNV or Holding.

Clause 20 Governing law and jurisdiction

- 20.1 This Agreement and the rights and obligations of the Parties hereunder shall be governed by and interpreted exclusively in accordance with the laws of the Netherlands.
- 20.2 All disputes in connection with this Agreement shall be finally settled by arbitration in accordance with the Commercial Rules of Arbitration of the International Chamber of Commerce (the "**Arbitral Rules**"). The arbitral tribunal shall be composed of three arbitrators, one appointed by the Heineken Parties and one appointed by Femsa, in accordance with the Arbitral Rules. The place of arbitration shall New York, N.Y., United States of America. The language of the arbitration will be English. The arbitrators shall make their award according to the rules of law. The costs of arbitration shall be split equally between Femsa, on the one hand, and the Heineken Parties, on the other hand, or as otherwise apportioned in the arbitration award. Judgement upon the award may be entered in any court having jurisdiction thereof.
- 20.3 Nothing in this Agreement shall preclude any Party from obtaining interim relief from an authorised court of law. Each of HNV and Holding hereby irrevocably and unconditionally authorise Femsa in accordance with article 2:346 under c of the Dutch Civil Code to initiate inquiry proceedings before the Enterprise Chamber (*Ondernemingskamer*) of the Court of Appeal in Amsterdam, the Netherlands.

In witness whereof this Agreement was executed by the Parties on the date first above written,

/s/ Helene S. Cohen

CB Equity LLP

By: Helene S. Cohen

[Signature Page to Corporate Governance Agreement]

In witness whereof this Agreement was executed by the Parties on the date first above written,

/s/ Carlos Eduardo Aldrete Ancira

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

By: Carlos Eduardo Aldrete Ancira

[Signature Page to Corporate Governance Agreement]

In witness whereof this Agreement was executed by the Parties on the date first above written,

/s/ J.F.M.L. van Boxmeer

Heineken N.V.

By: J.F.M.L. van Boxmeer

/s/ D.R. Hooft Graafland

Heineken N.V.

By: D.R. Hooft Graafland

[Signature Page to Corporate Governance Agreement]

In witness whereof this Agreement was executed by the Parties on the date first above written,

/s/ C.L. de Carvalho

Heineken Holding N.V.

By: C.L. de Carvalho

/s/ M. Das

Heineken Holding N.V.

By: M. Das

[Signature Page to Corporate Governance Agreement]

In witness whereof this Agreement was executed by the Parties on the date first above written,

/s/ M. Das

L'Arche Green N.V.

By: M. Das

[Signature Page to Corporate Governance Agreement]

Schedule 1 – Definitions

“Affiliate”	means with respect to any person, any person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with such person, but in the context of Femsa shall not include the Coca Cola company and shall include the Voting Trust and the Trust Beneficiaries. For the purposes of this definition, “control” and “controlled”, when used with respect to any person, means that such person and persons acting together with such person have the right, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, to exercise or control the exercise of more than 50% of the votes of equity holders in that entity;
“Agreement”	means this agreement and all of its Schedules;
“Allotted Share Delivery Instrument”	means the Allotted Share delivery agreement by and between HNV, Femsa and CB Equity LLP, to be entered into on the date of this Agreement;
“Allotted Shares”	means the shares of HNV which remain from time to time undelivered under the Allotted Share Delivery Instrument;
“Americas Committee”	means a committee of the H-Supervisory Board that has been, <i>inter alia</i> , established to oversee the strategic direction of the business of the Heineken Group;
“Americas Committee Regulations”	means the internal rules of procedure of the Americas Committee as set out in Schedule 7;
“Arbitral rules”	has the meaning ascribed to it in Clause 20.2;
“Beneficial Owner”	means the holder of Beneficial Ownership;
“Beneficial Ownership”	has the meaning ascribed to it in Clause 9.1;

“Change of Control”	means any person and persons acting in concert with such person acquiring Control of Femsa including but not limited to by means of tender offers (<i>ofertas públicas de compra</i>), provided however that a transfer of Control from one Affiliate of Femsa to another shall not constitute a Change of Control;
“Closing”	has the meaning given in the Share Exchange Agreement;
“Control”	means in relation to Femsa: <ul style="list-style-type: none"> (a) direct or indirect ownership of more than 50% of the B shares in Femsa or any class of securities having the power to elect a majority of the Board of Directors of Femsa; or (b) the right, directly or indirectly, to exercise or control the exercise of more than 50% of the votes of the B shares in Femsa or any class of securities of Femsa having the power to elect a majority of the Board of Directors of Femsa;
“Controlling Families”	means the Garza Laguera Gonda family, the Calderon Rojas family, the Bailleres family, the Garza Garza family, the Michel Suberville family, the Guichard Michel family and the David Michel family;
“DFSA”	has the meaning ascribed to in Clause 17.1;
“Direct Lineal Descendants”	means the direct lineal descendants of the Controlling Families and spouses of such direct lineal descendants, together with the parents of the members of the Controlling Families;
“Economic Interest”	means an economic interest in HNV (whether direct or indirect (including via a shareholding in Holding)), which shall be deemed for the purposes of this calculation to include any Allotted Shares, and in relation to such Allotted Shares on the assumption that (i) such Allotted Shares will be existing (and not newly issued) HNV Shares and (ii) that any shares that have been settled in cash pursuant to the Allotted Share Delivery Instrument shall be deemed to be held by Femsa;
“Financial Information”	has the meaning ascribed to it in Clause 17.2;

“First Femsa H-Representative”	has the meaning ascribed to it in Clause 2.1;
“Femsa”	means a legal entity incorporated under the laws of Mexico, having its official seat in Monterrey, Mexico and its place of business at General Anaya 601 Poniente, Colonia Bella Vista, Monterrey, NL 64410, Mexico;
“Femsa Beer Subsidiary”	means Emprex Cerveza, S.A de C.V.;
“Femsa Group”	means the Femsa Parties and their Subsidiaries;
“Femsa Group Employees”	has the meaning ascribed to it in Clause 14;
“Femsa H-Representative”	means the First Femsa H-Representative or the Second Femsa H-Representative, as the case may be;
“Femsa HH-Representative”	has the meaning ascribed to it in Clause 3.1;
“Femsa Parties”	means Femsa and CB EQUITY LLP.
“H-Articles”	means the articles of association of HNV;
“HH-Articles”	means the articles of association of Holding;
“HH-Board of Directors”	means the board of directors of Holding;

“H-Supervisory Board”	means the supervisory board of HNV;
“H-Supervisory Board Regulations”	means the internal rules of procedure of the H-Supervisory Board as set out in Schedule 5;
“Holding”	means a public company (<i>naamloze vennootschap</i>) incorporated under the laws of the Netherlands, having its official seat in Amsterdam, the Netherlands, and its place of business at Tweede Weteringplantsoen 5, 1017 ZD Amsterdam, the Netherlands;
“Holding Shares”	means any and all issued and outstanding ordinary shares in the share capital of Holding;
“Heineken Group”	means HNV and Holding and their respective Subsidiaries, including the Femsa Beer Subsidiary;
“Heineken Parties”	means Holding, HNV and L’Arche Green;
“HNV”	means a public company (<i>naamloze vennootschap</i>) incorporated under the laws of the Netherlands, having its official seat in Amsterdam, the Netherlands, and its place of business at Tweede Weteringplantsoen 21, 1017 ZD Amsterdam, the Netherlands;
“HNV Shares”	means any and all issued and outstanding ordinary shares in the share capital of HNV;
“L’Arche Green”	means a public company (<i>naamloze vennootschap</i>) incorporated under the laws of the Netherlands, having its official seat in Amsterdam, the Netherlands, and its place of business at Tweede Weteringplantsoen 5, 1017 ZD Amsterdam, the Netherlands;
“Offer”	means a public takeover bid for the Shares in accordance with the provisions of the DFSA;
“Orderly Market Arrangements”	means any sale of Shares through the facilities of a stock exchange on which either the HNV Shares or the Holding Shares are listed through a broker to be nominated by HNV or Holding;

“Party”	means a party to this Agreement;
“Preparatory Committee”	means the preparatory committee of the H-Supervisory Board;
“Preparatory Committee Regulations”	means the internal rules of the Preparatory Committee;
“Principal Terms”	means the terms and provisions set forth in Clauses 2.8, 3.4, 8.1(a), 9 and 11 of this Agreement;
“Second Fems H-Representative”	has the meaning ascribed to it in Clause 2.1;
“Sale Notice”	has the meaning ascribed to it in Clause 11.2(c);
“Shares”	means HNV Shares and/or Holding Shares as the case may be;
“Share Exchange Agreement”	has the meaning ascribed to it in recital A;
“Subsidiary”	means, with respect to any person, any corporation or other organization, whether incorporated or unincorporated, of which (a) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such person or by any one or more of its Subsidiaries, or by such person and one or more of its Subsidiaries or (b) such person or any other Subsidiary of such person is a general partner (excluding any such partnership where such Person or any Subsidiary of such person does not have a majority of the voting interest in such partnership);

“Third Party Unconnected With HNV”	means any person unconnected with, not acting in accordance with the directions of, or not acting pursuant to an arrangement or understanding with, HNV or Holding or any member of the Heineken Group or any person acting in concert with HNV or Holding or any member of the Heineken Group;
“Third Party”	means any person unconnected with, not acting in accordance with the directions of, or not acting pursuant to an arrangement or understanding with, Femsa or any person acting in concert with Femsa;
“Trading Days”	means any day on which Euronext Amsterdam is open for trading (but shall not include any such day where Femsa would be prohibited from dealing by any law or regulation);
“Transaction”	has the meaning ascribed to it in recital C;
“Transfer”	has the meaning ascribed to it in Clause 9.2;
“Trust Agreement”	means the Trust Agreement dated as of 8 August 2005 and entered into by Banco Invex, S.A. Institucion de Banca Multiple, Invex Grupo Financiero as trustee and the Trust Beneficiaries;
“Trust Beneficiaries”	means the parties to the Trust Agreement who are “Fideicomitentes-Fideicomisarios” at the date of this Agreement and persons who become parties to the Trust Agreement by virtue of being: <ul style="list-style-type: none"> (i) Direct Lineal Descendants, including any trusts of which such persons are the sole beneficiaries and (any companies controlled, directly or indirectly, by such persons); or (ii) Trust Successors; or (iii) Trust Company Successors;
“Trust Company Successors”	means (i) any company that succeeds to or acquires the business or assets of a company that is a party, from time to time, to the Trust Agreement; or (ii) the shareholders from time to time of such a company;
“Trust Successors”	means (i) any trust, company or entity that succeeds to or acquires the assets of a trust that is a party, from time to time, to the Trust Agreement; or (ii) the beneficiaries of such a trust or any entity acting on their behalf;

“Volume Weighted Average Price”

means, on any date, the volume weighted average sale price per Holding Share or HNV Share, as applicable, on such date on Euronext Amsterdam;

“Voting Ownership Cap”

has the meaning ascribed to it in Clause 9.1;

“Voting Trust”

means the voting trust established pursuant to the Trust Agreement.

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Heineken Holding N.V.

Articles of Association

Incorporated by deed executed on 27 March 1952
in the presence of civil-law notary W.W. Rutgers in Amsterdam.
The Articles of Association were last amended by deed
executed on 11 May 2009 in the presence of civil-law notary
Prof. D.F.M.M. Zaman in Rotterdam.
A ministerial declaration of no objection in respect of the
above-mentioned amendment was issued on 7 May 2009
under number N.V. 64.895.

Note on translation:

This is an English translation of a document drawn up in Dutch.
Every effort has been made to render the source text as literally
as possible without compromising continuity. In the event
of any disparity between the Dutch original and this translation,
the Dutch text will prevail.

In this translation, Dutch legal concepts are expressed in
English terms and may not be identical to the concepts described
by those English terms as understood under the laws of
other jurisdictions.

Heineken Holding N.V.

Established in Amsterdam

Introductory article Definitions.

	In these Articles of Association, the following terms shall have the meanings assigned below:
<i>Share</i>	a "share": a share in the capital of the company; unless indicated otherwise, the term shall include both ordinary shares and priority shares;
<i>Shareholder</i>	b "shareholder": a holder of one or more shares (expressly excluding Euroclear Nederland) or a participant in a collective deposit; unless indicated otherwise, the term shall include both holders of ordinary shares and holders of priority shares;
<i>Admitted institution</i>	c "admitted institution": an admitted institution (<i>aangesloten instelling</i>) within the meaning of the Giro Securities Transfer Act (<i>Wet giraal effectenverkeer</i>);
<i>Auditor</i>	d "auditor": a <i>register accountant</i> or other auditor within the meaning of Section 393 of Book 2 of the Dutch Civil Code, or an organisation in which such auditors work together;
<i>General meeting</i>	e "general meeting": the corporate body consisting of shareholders with voting rights and pledgees and usufructuaries in whom voting rights on shares are vested;
<i>General meeting of shareholders</i>	f "general meeting of shareholders": a meeting of shareholders and other persons entitled to attend;
<i>Participant</i>	g "participant": a participant in a collective deposit (<i>verzameldepot</i>), within the meaning of the Giro Securities Transfer Act;
<i>Subsidiary</i>	h "subsidiary": a subsidiary of the company within the meaning of Section 24a of Book 2 of the Dutch Civil Code;
<i>Euroclear Nederland</i>	i "Euroclear Nederland": the central institute within the meaning of the Giro Securities Transfer Act, being Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.;
<i>Euronext</i>	j "Euronext": Euronext Amsterdam N.V.;
<i>Central securities deposit</i>	k "central securities deposit": a giro deposit within the meaning of the Giro Securities Transfer Act;
<i>Group company</i>	l "group company": a group company within the meaning of Section 24b of Book 2 of the Dutch Civil Code;
<i>Financial statements</i>	m "financial statements": the balance sheet, the income statement with explanatory notes and if the company prepares consolidated financial statements, the consolidated financial statements;
<i>Official Price List</i>	n "Official Price List": the Official Price List of Euronext or another official publication taking its place;
<i>Meeting of priority shareholders</i>	o "meeting of priority shareholders": a corporate body consisting of holders of priority shares with voting rights and pledgees and usufructuaries in whom voting rights on priority shares are vested;
<i>Board of Directors</i>	p "Board of Directors": the senior management of the company;
<i>In writing</i>	q "in writing": by letter, fax, e-mail or another form of readable and reproducible electronic communication, provided the identity of the sender can be adequately established;
<i>Corporate body</i>	r "corporate body": the Board of Directors, the meeting of priority shareholders or the general meeting;
<i>Global certificate</i>	s "global certificate": the share certificate embodying all ordinary bearer shares;
<i>Collective deposit</i>	t "collective deposit": a collective deposit (<i>verzameldepot</i>) within the meaning of the Giro Securities Transfer Act.

Article 1 Name. Registered office.

- Name and registered office*
- 1 The name of the company is: Heineken Holding N.V.
 - 2 It has its registered office in Amsterdam.

Article 2 Object.

- Object*
- 1 The object of the company is:
to participate in other enterprises, in particular Heineken N.V., which has its registered office in Amsterdam, to manage and supervise such enterprises and take their shares into administration, to provide services, to acquire, hold and manage other income-producing assets and in general to engage in any other activity which may be related or conducive to the foregoing, all in the broadest sense.
- Holding of Heineken N.V. shares*
- 2 The nominal value of the Heineken N.V. shares held shall at all times be at least equal to the total nominal value of the company's ordinary shares in issue.

Article 3 Duration.

- Duration*
- The company was formed on the twenty-seventh of March, nineteen hundred and fifty-two, for an indefinite period.

Article 4 Capital. Classes of share. Issue of shares. Pre-emptive right. Payment.**Own shares. Depositary receipts. Capital reduction.**

- Authorised capital*
- 1 The authorised capital of the company amounts to one billion, five hundred million and five hundred euros (EUR 1,500,000,500.00), divided into nine hundred and thirty-seven million, five hundred thousand (937,500,000) ordinary shares of one euro and sixty cents (EUR 1.60) and two hundred and fifty (250) priority shares of two euros (EUR 2.00).
- Classes of share*
- Nominal value*
- Issue of shares*
- 2 Without prejudice to the statutory provisions, shares shall be issued pursuant to a resolution of the general meeting. A resolution by the general meeting to issue shares shall be valid only if prior or simultaneous approval is given by resolution of the meeting of holders of shares of the same class as that to which the issue relates. Such approval by resolution shall not be required if and to the extent that the company is obliged pursuant to Article 10 of the Articles of Association to distribute stock dividend or bonus shares or grant pre-emptive rights to shareholders.
- Resolutions to issue shares*
- Issue price*
- The resolution to issue shares shall state the price and other issue terms. Shares may not be issued at less than par, save as provided in Section 80, subsection 2, of Book 2 of the Dutch Civil Code. The nominal value of the shares and, if the shares are issued at above par, the difference between the nominal value and the issue price (share premium) shall be paid at the time of subscription. In so far as no other form of payment has been agreed, payment on shares shall be made in cash. Payment may only be made in foreign currency with the company's approval.
- Share premium, payment*
- Payment in foreign currency*
- 3 Without prejudice to the statutory provisions, each holder of ordinary shares shall have a pre-emptive right to issues of ordinary shares in proportion to the aggregate amount of shares held, save as provided in Section 96a, subsection 1, of Book 2 of the Dutch Civil Code.
- Pre-emptive right*
- Restriction or exclusion of pre-emptive right*
- Pre-emptive rights may be restricted or excluded by resolution of the general meeting. Resolutions put to the general meeting to restrict or exclude pre-emptive rights shall include a written explanation of the reasons for the resolution and the choice of the proposed issue price.
- Own shares*
- 4 The company may not subscribe for its own shares. Acquisition by the company of own shares or depositary receipts therefor which are not fully paid shall be null and void. Fully paid ordinary shares in its own capital or depositary receipts therefor may only be acquired by the company for no consideration or if:
 - a the shareholders' equity minus the purchase price is not less than the sum of the paid-in and called capital and the reserves prescribed by law and
- Conditions for acquisition of own shares*

	<p>b the nominal amount of own shares or depositary receipts therefor which the company acquires, holds or keeps in pledge or which are held by a subsidiary does not exceed half of the issued capital.</p> <p>With regard to the stipulation under a. above, the shareholders' equity shall be that shown by the most recently adopted balance sheet, less the purchase price of the own shares or depositary receipts therefor, the amount of loans as referred to in paragraph 5 second sentence and less any distributions of profit or reserves to others which have become payable by the company or its subsidiaries after the balance sheet date. If the financial statements have not been adopted within six months of the end of a financial year, acquisition pursuant to this article shall not be permitted. Acquisition other than for no consideration shall be permitted only if the Board of Directors has been duly authorised by the general meeting. Such authorisation shall be valid for a maximum of eighteen months. The authorisation given by the general meeting shall state how many shares or depositary receipts therefor may be acquired, how they may be acquired and between what limits the price must lie.</p>
<i>Authorisation to acquire own shares</i>	
<i>Acquisition of own shares for staff share ownership scheme</i>	Such authorisation shall not be required for the company to acquire own shares in order to transfer them to employees of the company or a group company under a scheme applicable to them, provided such shares are included in the price list of a stock exchange.
<i>Prohibited acts relating to third-party acquisition of shares</i>	5 The company may not advance loans, furnish security, give price guarantees or otherwise warrant performance by other parties or assume joint and several liability with or for other parties, in order to enable other parties to subscribe for or acquire shares in its capital or depositary receipts therefor. With a view to the aforementioned, the company may also not advance loans, unless the Board of Directors resolves thereto and the further conditions as laid down in the law have been met. The prohibition as referred to in the previous two sentences shall also apply to its subsidiaries, but shall not apply to shares or depositary receipts therefor subscribed for or acquired by or on behalf of employees of the company or a group company.
<i>No profit distribution on own shares</i>	6 a No distribution of profit shall be made to the company on shares which it holds in its own capital. Such shares shall not be taken into account in calculating profit distribution unless a usufruct had already been established on them at the time of acquisition by the company.
<i>Novating rights on own shares</i>	b The company may not exercise voting rights on own shares or depositary receipts therefor which are held by the company or on which the company holds a usufruct or pledge. The holder of a pledge or usufruct on own shares held by the company may not exercise the voting rights thereon if the pledge or usufruct has been established by the company. The provisions of the present subparagraph b. shall apply (<i>mutatis mutandis</i>) to own shares or depositary receipts therefor which are held by subsidiaries of the company or on which they hold a usufruct or pledge.
<i>Quorum calculation</i>	c For the purposes of determining whether a given proportion of the capital is represented or whether a majority represents a given proportion of the capital, the capital shall be reduced by the value of shares in respect of which voting rights cannot be exercised.
<i>Disposal of own shares</i>	7 The Board of Directors shall require the approval of the meeting of priority shareholders for the disposal of own shares or depositary receipts therefor.
<i>Cooperation in issue of depositary receipts</i>	8 The company may only cooperate in the issue of depositary receipts for shares pursuant to a resolution of both the general meeting and the meeting of priority shareholders.
<i>Capital reduction</i>	9 With due observance of the relevant statutory provisions, the general meeting may, on a motion of the meeting of priority shareholders, resolve to reduce the company's issued capital.
<i>Legal acts pursuant to Section 94</i>	10 The Board of Directors shall be authorised to perform legal acts within the meaning of Section 94, subsection 1, of Book 2 of the Dutch Civil Code without the prior approval of the general meeting.

Article 5 Shares. Choice of bearer or registered shares. Bearer shares. Global certificate.

<i>Registered shares</i>	1	The priority shares shall be registered. At the subscriber's request, the ordinary shares issued to the subscriber shall be registered. In the absence of such a request, rights to bearer shares shall be vested in the subscriber in the manner set forth below.
<i>Bearer shares</i>		Bearer shares may be exchanged for registered shares and vice-versa at any time, at the shareholder's written request to the Board of Directors.
<i>Exchange</i>		
<i>Global certificate for bearer shares</i>	2	All ordinary shares in issue shall be embodied in the global certificate.
<i>Euroclear Nederland</i>	3	The global certificate shall be held in custody on behalf of the shareholder(s) by Euroclear Nederland. Without prejudice to the provisions of Article 11, paragraph 4, of these Articles of Association, the administration of the global certificate shall be entrusted irrevocably to Euroclear Nederland, in its capacity as administrator of the central securities deposit of the ordinary bearer shares, and Euroclear Nederland shall be irrevocably authorised to perform any action with respect to the relevant ordinary shares on behalf of the shareholder(s), including acceptance and delivery thereof and cooperation in additions to and deletions from the global certificate. For as long as the global certificate is held in custody by Euroclear Nederland, (a) Euroclear Nederland shall credit to each admitted institution designated by one or more shareholders an ordinary share in the central securities deposit of the ordinary bearer shares corresponding to the rights of the shareholder(s) and (b) each admitted institution designated by one or more shareholders shall credit the shareholder(s) accordingly in the admitted institution's collective deposit of the relevant ordinary bearer shares.
<i>Additions to global certificate</i>	4	Upon the issue of ordinary bearer shares, (a) Euroclear Nederland shall, at the company's request, have the new ordinary bearer shares added to the global certificate, thereby increasing the number of ordinary bearer shares represented by the global certificate by the number of ordinary bearer shares thus added, (b) Euroclear Nederland shall credit to each admitted institution designated by one or more shareholders a share in the central securities deposit of the ordinary bearer shares corresponding to the rights of the shareholder(s) and (c) each admitted institution designated by one or more shareholders shall credit the shareholder(s) accordingly in the admitted institution's collective deposit of the relevant ordinary bearer shares.
<i>Registration of bearer shares</i>	5	If a shareholder wishes to convert one or more ordinary bearer shares to registered shares, (a) Euroclear Nederland shall transfer the relevant ordinary registered shares to the shareholder and shall serve notice of the transfer on the company or have the transfer acknowledged by the company, (b) the company shall enter the shareholder in the register of shareholders as the holder of the relevant ordinary registered shares, (c) Euroclear Nederland shall have the relevant ordinary shares deleted from the global certificate, thereby decreasing the number of ordinary bearer shares represented by the global certificate by the number of shares thus deleted, (d) Euroclear Nederland shall debit to the admitted institution designated by the shareholder an ordinary share in the central securities deposit of the ordinary bearer shares corresponding to the shares deleted from the global certificate and (e) the admitted institution shall debit the shareholder accordingly in the admitted institution's collective deposit of the ordinary bearer shares.
<i>Exchange of registered shares for bearer shares</i>	6	If a shareholder wishes to convert one or more ordinary registered shares to bearer shares, (a) the shareholder shall transfer the relevant ordinary registered shares to Euroclear Nederland and shall serve notice of the transfer on the company or have the transfer acknowledged by the company, (b) the company shall delete the shareholder from the register of shareholders as the holder of the relevant registered shares, (c) Euroclear Nederland shall have the relevant ordinary shares added to the global certificate, thereby increasing the number of ordinary bearer shares represented by the global certificate by the number of shares thus added, (d) Euroclear Nederland

	shall credit to the admitted institution designated by the shareholder a share in the central securities deposit of the ordinary bearer shares corresponding to the shares added to the global certificate and (e) the admitted institution shall credit the shareholder accordingly in the admitted institution's collective deposit of the ordinary bearer shares.
<i>Delivery of bearer shares</i>	7 A request by a participant for delivery of ordinary bearer shares shall be equivalent to a request for registration of the relevant shares. The provisions of paragraph 5 shall be applicable (<i>mutatis mutandis</i>). The request may not relate to more than the number of ordinary bearer shares to which the participant is entitled.
<i>Signature of global certificate</i>	8 The global certificate shall be signed by two members of the Board of Directors or by one or more persons authorised to do so by the Board of Directors.

Article 6 Registered shares. Register of shareholders. Transfer of shares.

<i>Registered shares no share certificates Register of shareholders</i>	1 No share certificates shall be issued for registered shares.
	2 The Board of Directors shall keep a register in which shall be entered the registered shares and the names and addresses of their holders, in accordance with the statutory provisions in that regard. The register shall also show the names and addresses of holders of a usufruct or pledge on those shares, stating which of the rights attaching to the shares are vested in them. Each holder of a registered share and each holder of a usufruct or pledge on a registered share shall be required to notify the company of his address in writing. The register shall be regularly updated. If the registered shares are included in a collective deposit or central securities deposit, the name and address of the admitted institution or of Euroclear Nederland, respectively, may be entered in the register of shareholders, stating the date on which the shares were included in the collective deposit or central securities deposit, respectively, and the date of acknowledgement or service of notice of the transfer.
<i>Non-negotiable extracts from register</i>	3 On request, a shareholder or holder of a usufruct or pledge on a registered share shall be provided free of charge with an extract from the register relating to his right to a share, stating the rights attaching to that share within the meaning of paragraph 2 of this article. Such extracts shall be non-negotiable.
<i>Entries in register of shareholders</i>	4 Each transfer of registered shares, each conversion of registered shares into bearer shares and each conversion of bearer shares into registered shares shall be entered in the register. All entries and annotations in the register shall be signed by two members of the Board of Directors or by one or more persons authorised to do so by the Board of Directors. The Board of Directors shall lay the register open for inspection at the company's offices by shareholders and by holders of a usufruct or pledge in whom rights within the meaning of subsection 4 of Sections 88 and 89 of Book 2 of the Dutch Civil Code are vested. The previous sentence shall not apply to that part of the register which is kept outside the Netherlands in compliance with the legislation of the country concerned or with stock exchange regulations.
<i>Transfer of registered shares</i>	5 a The transfer of a registered share or a restricted right thereto shall require a deed intended for that purpose and, except where the company itself is a party to the transaction, written acknowledgement of the transfer by the company. The acknowledgement shall be given in the deed or by a dated statement of acknowledgement on the deed or on a copy thereof or extract therefrom signed as a true copy by a civil-law notary or by the transferor. The service of such deed, copy or extract on the company shall be deemed equivalent to acknowledgement.
<i>Establishment of pledge</i>	b A pledge may also be established without acknowledgement by or service of a deed on the company, in which case Section 239 of Book 3 of the Dutch Civil Code shall be applicable (<i>mutatis mutandis</i>) and acknowledgement by or service of a deed on the company shall be substituted for notification of the pledge by the pledgee within the meaning of subsection 3 of that provision.

<i>Partition of registered shares</i> <i>Establishment and transfer of usufruct and pledge</i>	6 The provisions of paragraph 5.a of this article shall be applicable (<i>mutatis mutandis</i>) to: <ol style="list-style-type: none"> a the partition of registered shares included in a community of property; b the establishment or transfer of a usufruct on registered shares and the establishment of a pledge on registered shares.
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Article 7 Board of Directors. Appointment, suspension and dismissal. Remuneration.

<i>Number of members</i>	1 The company shall be managed by a Board of Directors consisting of three or more members. One of the members of the Board of Directors may be appointed by the general meeting as delegate member, who shall be charged in particular with the day-to-day management and the implementation of the Board of Directors' resolutions.
<i>Delegate member</i>	
<i>Appointment</i>	2 The members of the Board of Directors shall be appointed by the general meeting from a non-binding list of candidates for each vacancy, to be drawn up by the meeting of priority shareholders. The meeting of priority shareholders shall also be entitled to draw up a non-binding list of candidates for appointment as a member of the Board of Directors when there is no vacancy.
<i>List of candidates included in notice of meeting</i>	3 The list of candidates shall be included in the notice convening the general meeting of shareholders at which the appointment is to be considered. If no list of candidates is presented to the general meeting of shareholders at which an appointment is to be made, the meeting shall be free in its choice of appointee. Lists of candidates which are drawn up in time by the meeting of priority shareholders shall be non-binding.
<i>Remuneration policy</i>	4 The company shall have a policy on the remuneration of the Board of Directors which shall be adopted by the general meeting on a resolution moved by the meeting of priority shareholders. The remuneration policy shall address as a minimum the matters covered by Section 383, subsections c. to e., of Book 2 of the Dutch Civil Code, insofar as they relate to the Board of Directors.
<i>Determination of remuneration</i>	5 The remuneration of the members of the Board of Directors shall be determined by the meeting of priority shareholders with due observance of the remuneration policy adopted by the general meeting and the relevant statutory provisions.
<i>Suspension and dismissal</i>	6 Members of the Board of Directors may be suspended or dismissed by the general meeting at any time by a resolution adopted by an absolute majority of the votes cast which represents at least one-third of the issued capital.
<i>Second meeting</i>	7 If the required quorum is not present or represented, another meeting shall be convened at which the resolution may be adopted by an absolute majority of the votes cast, irrespective of the proportion of the capital represented.
<i>Period of suspension</i>	8 A suspension may be extended on one or more occasions, but shall not last longer than three months in total.
<i>Indemnification</i>	9 The company shall indemnify each member and former member of the Board of Directors against: <ol style="list-style-type: none"> (i) reasonable and duly substantiated expenses incurred in conducting a defence (including legal fees), at law and otherwise, against third-party claims for compensation for loss or payment of fines, penalties and the like; and (ii) the financial consequences of decisions of the courts and rulings of public authorities and amounts which he or she has actually and reasonably paid in settlement to third parties, <p>in respect of acts or omissions in the performance of the duties of a member of the Board of Directors or any other duty he or she may perform at the company's request. A member shall not be indemnified if and to the extent that a Dutch court, by way of final and conclusive decision, determines such act or omission to be seriously culpable, nor if the loss is covered by insurance and the insurer has paid for the loss, nor if the loss is uninsured due to fault on the part of the member of the Board of Directors concerned. The company may take out liability insurance on behalf of the individuals concerned. By agreement, the Board of Directors may make further provisions in addition to the foregoing.</p>

Article 8 Board of Directors. Duties. Decision-making.

<i>Function of Board of Directors</i>	1	Within the limits defined by these Articles of Association, the Board of Directors shall be charged with the management of the company.
<i>Chairman and secretary</i>	2	The Board of Directors shall appoint a chairman from among its members and a secretary from among its members or from outside.
<i>Decision-making</i>	3	Resolutions of the Board of Directors shall require an absolute majority of the votes of the incumbent members.
<i>Qualified majority</i>	4	<p>The consent of at least three-fifths of the members of the Board of Directors (which three-fifths shall in any event include the delegate member if such has been appointed) shall be required for resolutions relating to:</p> <ul style="list-style-type: none"> a acquiring, disposing of or encumbering securities, other investments or real estate; b borrowing money other than from the company's bankers and entering into credit agreements; c issuing shares, granting rights to subscribe for shares and restricting or excluding pre-emptive rights; d entering into contracts of suretyship; e performing legal acts within the meaning of Section 94, subsection 1, of Book 2 of the Dutch Civil Code; f advancing of loans as referred to in Article 4, paragraph 5. <p>If a delegate member has not been appointed, the above resolutions shall require the approval of the meeting of priority shareholders.</p>
<i>Approval by meeting of priority shareholders</i>	5	<p>The Board of Directors shall require the approval of the meeting of priority shareholders for resolutions relating to the exercise of voting rights on shares in public limited companies and other legal entities and the way in which such votes are to be cast.</p> <p>If the meeting of priority shareholders does not approve the Board of Directors' resolution within fourteen days of the resolution being considered by the meeting, the Board of Directors shall convene a general meeting of shareholders, to be held within six weeks of the date on which the resolution was considered by the meeting of priority shareholders, to decide on approval of the way in which the votes are to be cast. Since this provision shall have only internal application, the absence of cooperation or approval of any kind shall not be invoked by or against the company.</p>
<i>Approval by general meeting</i>	6	<p>Without prejudice to the provisions of the previous paragraph and the other restrictions imposed on the authority of the Board of Directors by the law and these Articles of Association, the approval of both the meeting of priority shareholders and the general meeting shall be required for resolutions of the Board of Directors relating to any material change in the nature or identity of the company or the enterprise, in any event including resolutions relating to:</p> <ul style="list-style-type: none"> a transfer of all or virtually all of the company's enterprise to a third party; b entry into or termination of lasting cooperation between the company or a subsidiary and another legal entity or partnership or as general partner in a limited partnership or general partnership where such cooperation or termination thereof has material significance for the company; c acquisition or disposal by the company or a subsidiary of an interest in the capital of another company amounting to one-third or more of the company's assets as disclosed in its consolidated balance sheet and notes thereto according to its most recently adopted financial statements.

Article 9 Board of Directors. Representation.

Conflicts of Interest. Absence or inability to act.

<i>Representative authority</i>	1	The Board of Directors shall be authorised to represent the company. Representative authority shall also be exercised by two members of the Board of Directors acting together or the delegate member of the Board of Directors acting alone.
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<i>Attorneys</i>	2 The Board of Directors may appoint attorneys or other officers with general or limited representative authority and may revoke or vary the terms of such appointment at any time. Authority to represent the company shall in all cases be exercised within the limits imposed thereon. The titles conferred upon such attorneys or officers shall be determined by the Board of Directors.
<i>Conflicts of interest</i>	3 In the event of a conflict of interest between the company and a member of the Board of Directors, the company shall be represented by the member of the Board of Directors designated by the meeting of priority shareholders for that purpose.
<i>Absence or inability to act</i>	4 In the event of the absence or inability to act of one or more members of the Board of Directors, the remaining member(s) of the Board of Directors shall be charged temporarily with the entire management of the company. In the event of the absence or inability to act of all the members of the Board of Directors, the person designated for that purpose by the meeting of priority shareholders shall be charged temporarily with the management.

Article 10 Financial year and financial statements. Appropriation of profit.

<i>Financial year</i>	1 The company's financial year shall be concurrent with the calendar year.
<i>Preparation of financial statements</i>	The company's books shall be closed on the thirty-first of December of each year. Annually not later than four months after the end of the financial year, the Board of Directors shall prepare the financial statements and shall deposit the same accompanied by the annual report for inspection by the Shareholders at the company's office.
<i>Signature of financial statements</i>	2 The financial statements prepared by the Board of Directors shall be signed by all the members of the Board of Directors and presented for adoption, together with the annual report of the Board of Directors, to the annual general meeting of shareholders, to be held not later than June. If the signature of one or more of them is missing, this shall be stated and the reason shall be given.
<i>Ratification of actions of members Board of Directors</i>	3 The agenda of the general meeting of shareholders at which adoption of the financial statements is considered shall include a separate resolution to ratify the actions of the members of the Board of Directors in respect of their management, to the extent reflected in the financial statements.
<i>Profit distribution from free reserves</i>	4 Profit distributions may only be made if the shareholders' equity of the company exceeds the sum of the paid-up and called capital and the reserves prescribed by law.
<i>Distribution after adoption of financial statements</i>	5 Provided the requirement of the previous paragraph is met, profit shall be distributed within one month of adoption of the financial statements.
<i>Same dividend as Heineken N.V.</i>	6 Out of the profit as shown by the income statement adopted by the general meeting, the ordinary shareholders shall first be paid the same dividend per share as paid by Heineken N.V. for the year concerned, having due regard to the provisions of paragraph 4. If and to the extent that the dividend paid by Heineken N.V. is in the form of a stock dividend, the dividend paid to the ordinary shareholders shall also be in the form of a stock dividend. From what remains after the distribution to the ordinary shareholders, the priority shareholders shall be paid a dividend of four per cent (4%) and the remainder shall be appropriated to the reserves. On a motion of the meeting of priority shareholders, the general meeting shall be authorised to make distributions from the reserves.
<i>Stock dividend</i>	
<i>4% dividend on priority shares</i>	
<i>Remaining dividend at disposal of general meeting</i>	
<i>Bonus shares</i>	7 If bonus shares are issued by Heineken N.V., the company shall distribute bonus shares to its ordinary shareholders in the same ratio. In so far as the shares issued by Heineken N.V. are charged to a share premium reserve, the company shall also charge bonus shares to its share premium reserve as far as possible.
<i>Pre-emptive rights</i>	8 If Heineken N.V. issues new shares to which its shareholders have pre-emptive rights, the company shall also issue new shares on similar terms to which its shareholders shall have pre-emptive rights.
<i>Interim dividend</i>	9 The Board of Directors may resolve, with due observance of the statutory provisions, to pay an interim dividend on account of the expected dividend for the financial year concerned.

Article 11 General meetings of shareholders.

<i>Annual general meeting</i>	<p>1 The annual general meeting of shareholders shall be held each year within six months of the end of the financial year, unless the time limit has been extended as permitted by law. The agenda shall include:</p> <ul style="list-style-type: none"> a consideration of the annual report; b consideration and adoption of the financial statements; c ratification of the actions of the members of the Board of Directors in respect of their management; d announcement of the appropriation of profit and dividend; e any substantial change in the company's corporate governance structure; f (re)appointment of the external auditor or, where applicable, of another expert designated to fulfil that function as required by law; g any other resolution proposed by one or more shareholders pursuant to paragraph 8 of this article or by the Board of Directors, with due observance of the other relevant provisions of the law and the Articles of Association.
<i>Venue of meeting</i>	2 The general meetings shall be held in Amsterdam.
<i>Notice of meeting</i>	3 The Board of Directors shall give at least fourteen (14) days' notice of general meetings of shareholders – not counting the day of the announcement and the day of the meeting – by placing announcements in at least one national daily newspaper and in the Official Price List. Holders of bearer shares may also be given notice of meetings by means of an announcement published electronically (for example on the company's website), which is directly and permanently accessible until the date of the meeting. Holders of registered shares may also be given notice of meetings by letter to their addresses as entered in the register of shareholders. With their consent, holders of registered shares may also be given notice of meetings by means of a readable and reproducible electronic communication to the address notified to the company by the registered shareholder for that purpose. The obligation to publish the notice of meeting in at least one national daily newspaper and/or in the Official Price List shall not apply if and to the extent that it ceases to be required by the Rules and Regulations of Euronext (or rules and regulations taking their place). The notice shall state the business to be transacted or shall state that the agenda of the meeting is available for inspection by the shareholders at the offices of the company.
<i>Entitlement to attend</i>	4 Each shareholder shall have the right to attend, either in person or represented by a proxy appointed in writing, address and vote at general meetings of shareholders. The Board of Directors may determine that the rights referred to in the first sentence may also be exercised by means of electronic communication. Shareholders may participate by means of electronic communication only if their identity can be verified and they are able to follow and participate in the proceedings and vote at the meeting by such means. The Board of Directors may impose conditions on the use of electronic communication and how the requirements of this article are to be met. If the Board of Directors imposes conditions on the use of electronic communication, it shall be stated in the notice of meeting referred to in paragraph 3.
<i>Deposition of statement by admitted institution</i>	5 With respect to the rights attaching to bearer shares to attend and vote at meetings, the company shall, subject <i>mutatis mutandis</i> to the provisions of Sections 88 and 89 of Book 2 of the Dutch Civil Code, also recognise as a shareholder a person named in the written statement of an admitted institution to the effect that the number of bearer shares mentioned in the statement is part of its collective deposit and that the person named in the statement is a participant in its collective deposit in respect of the said number of bearer shares and will remain so until after the meeting, provided the statement is deposited by the time and at the place stated in the notice of meeting, in exchange for which a receipt shall be issued which shall serve as the admission ticket to the meeting. The notice convening the general meeting of shareholders shall state the latest date by which the admitted institution's statement must be deposited, which shall not be earlier than the seventh day before the day of the general meeting of shareholders.

<i>Record date</i>	6 When convening a general meeting of shareholders, the Board of Directors may set a record date as referred to in Section 119 of Book 2 of the Dutch Civil Code. The Board of Directors may also set a record date as referred to in Section 117b of Book 2 of the Dutch Civil Code. The record date shall not be set for a date prior to the thirtieth day before that of the meeting. If the Board of Directors has resolved to set a record date, the written statement of an admitted institution as referred to in Article 11, paragraph 5, need only verify that the number of bearer shares mentioned in the statement was part of its collective deposit on the given record date and that the person named in the statement was a participant in its collective deposit in respect of the said number of bearer shares on the given record date. The notice convening the general meeting of shareholders shall state the record date as aforementioned and the manner in which the persons entitled to attend or vote at a meeting may procure their registration and exercise their rights.
<i>Proxies</i>	7 The rights with respect to meetings as referred to in Article 11, paragraph 4, may be exercised by a proxy appointed in writing, provided the instrument appointing the proxy is received by the Board of Directors not later than the date stated in the notice convening the meeting. All persons entitled to vote at and/or attend the meeting or their representatives shall sign the attendance register, if necessary electronically, stating the number of shares and number of votes they represent.
<i>Extraordinary general meeting of shareholders</i>	8 An extraordinary general meeting of shareholders shall be held whenever convened by the Board of Directors; the Board of Directors shall also be obliged to convene an extraordinary general meeting of shareholders, to be held within four weeks of receipt of a request to that effect by shareholders who together represent at least one-quarter of the issued share capital. The meeting shall consider the matters specified by those requesting the meeting.
<i>Right of shareholders to place items on agenda</i>	9 An item that one or more holders of shares which alone or together (i) represent at least one per cent (1%) of the issued capital or (ii) have a value of at least fifty million euros (EUR 50,000,000) have requested in writing to be placed on the agenda shall be included in the notice of meeting or announced in a similar manner, provided the Board of Directors receives the request not later than the sixtieth day before the date of the general meeting of shareholders and provided there are no compelling reasons to exclude it in the company's interest.
<i>Provision of information</i>	10 The Board of Directors shall provide the general meeting with all the information it may require, unless there are compelling reasons to withhold it in the company's interest. If the Board of Directors withholds information on the grounds of the company's interest, it shall give its reasons for doing so.
<i>Shareholders' circular</i>	11 The Board of Directors shall inform the general meeting by means of a shareholders' circular or an explanatory note included in the agenda of all facts and circumstances which are relevant to the resolutions on the agenda relating to approval, delegation or authorisation.
Article 12 General meetings of shareholders. Chairmanship. Decision-making. Minutes.	
<i>Chairmanship of general meetings</i>	1 All general meetings of shareholders shall be presided over by the chairman of the Board of Directors or, in his absence, by one of the members of the Board of Directors present at the meeting, to be appointed by the latter in consultation. If none of the members of the Board of Directors is present, the meeting shall appoint its own chairman.
<i>Method of voting</i>	2 The chairman shall determine the method of voting.
<i>Adoption of resolutions</i>	3 Adoption of resolutions at all general meetings of shareholders shall require an absolute majority of the votes cast, except where a larger majority is required by law or these Articles of Association.
<i>On a share, one vote</i> <i>Votes cast electronically</i>	4 Each share shall confer entitlement to cast one vote. When convening a general meeting of shareholders, the Board of Directors may determine that votes cast

	electronically in advance of the meeting are to be equated to votes cast in the course of the meeting. Such votes may not be cast before the closing date for registration referred to in Article 11, paragraph 6. A shareholder who has voted electronically in advance of a general meeting of shareholders shall still be entitled to attend and address the meeting, either in person or represented by a proxy appointed in writing. Once cast, a vote cannot be retracted. For the purposes of application of the above provisions, persons entitled to vote at and/or attend the meeting are those in whom those rights are vested on a date specified by the Board of Directors in the notice convening the general meeting of shareholders and who are entered as such in a register designated by the Board of Directors, not those in whom the rights in the shares are vested on the date of the general meeting of shareholders.
<i>Validity of votes cast by those with interests other than that of shareholder</i>	5 Votes cast in respect of shares held by those who, other than in the capacity of shareholder in the company, will acquire a right against the company or be released from an obligation to the company shall also be valid.
<i>Blank votes</i>	6 Blank votes shall be deemed not to have been cast.
<i>Chairman's decision is final</i>	7 The chairman's decision as to the outcome of voting by the general meeting of shareholders as pronounced at the meeting shall be final. The same shall apply to the substance of a resolution on a motion which has not been recorded in writing. If the decision is challenged immediately after its pronouncement, a new vote shall be held if demanded by the majority or, where the original vote was not by roll-call or written ballot, by one of those present with voting rights. The legal consequences of the original vote shall be extinguished by the new vote.
<i>Minutes</i>	8 Minutes shall be kept of the proceedings of general meetings of shareholders by a secretary appointed by the general meeting and shall be confirmed and signed by the chairman of the meeting and by the minutes secretary.
<i>Notarial record</i>	9 If a notarial record is made of the proceedings of a general meeting of shareholders, co-signature by the chairman alone or by a shareholder designated by the chairman shall suffice.
	10 Shareholders shall be provided on request with copies of the minutes of the general meeting of shareholders not later than three months after the end of the meeting and shall be given three months in which to comment on the minutes. The minutes shall be adopted in the manner prescribed in paragraphs 8 and 9.
<i>Other meetings</i>	11 The foregoing shall also apply as far as possible to meetings of priority shareholders.
	12 Valid resolutions may be adopted at meetings of holders of a particular class of share which have not been convened according to the statutory provisions or the Articles of Association, provided they are carried unanimously by holders of all the shares of the relevant class in issue.

Article 13 Amendment of the Articles of Association and winding up.

<i>Resolutions to amend Articles of Association or wind up the company</i>	1 A resolution to amend the Articles of Association or wind up the company may be adopted by the general meeting only on a motion of the meeting of priority shareholders and only if at least half of the issued capital is represented.
<i>Announcement of resolution to amend Articles of Association</i>	2 If a resolution to amend the Articles of Association is to be put to the general meeting, that fact shall be stated in the notice of meeting and a copy of the resolution, containing the literal text of the proposed amendment, shall be deposited at the company's offices for inspection by shareholders until the end of the general meeting of shareholders.
<i>Second meeting</i>	3 If the required capital is not represented at the meeting, a second general meeting of shareholders shall be held within four weeks of that general meeting of shareholders, at which a resolution within the meaning of the first paragraph of this article may be adopted irrespective of the capital represented. Notice of the latter general meeting of shareholders may not be given until after the date on which the former general meeting of shareholders was held.

Article 14 Liquidation.

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| <i>Remuneration</i> | 1 In the event of the company being wound up pursuant to a resolution of the general meeting, it shall be liquidated by the Board of Directors unless the general meeting resolves, on a motion of the Board of Directors, to assign responsibility for the liquidation to a special committee. |
| <i>Liquidation surplus</i> | 2 In its resolution to wind up the company, the general meeting shall also determine the remuneration of the liquidators, which may be an amount equal to a percentage of the liquidation surplus as determined by the general meeting. |
| | 3 Out of the liquidation surplus shall first be distributed, if possible, an amount equal to the average price obtained for the Heineken N.V. shares sold by the company in the course of the liquidation. The liquidators shall be authorised to make the liquidation payment to ordinary shareholders in the form of Heineken N.V. shares, in the ratio of one Heineken Holding N.V. ordinary share for one Heineken N.V. share of the same nominal value. The priority shareholders shall then be paid the nominal value of their shares. The remainder shall be distributed to the ordinary shareholders in proportion to their holdings of ordinary shares. The remainder may also be distributed in kind, if and to the extent that the shareholders concerned so choose. |
| | 4 The liquidation shall be performed in all other respects in accordance with the statutory provisions. |

Article 15 Notice of meetings and announcements.

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| <i>Notice of meetings and announcements</i> | Without prejudice to the provisions of Section 96a, subsection 4, of Book 2 of the Dutch Civil Code, all notices convening general meetings of shareholders, announcements of dividends and other distributions and all other communications intended for shareholders shall be placed in at least one national daily newspaper, in the Official Price List and on the company's website. The obligation to place such announcements in a national daily newspaper and/or in the Official Price List shall not apply if and to the extent that it ceases to be required by law and the Rules and Regulations of Euronext (or rules and regulations taking their place). |
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Articles of Association

2009

Heineken
NV

Articles of Association

Approved by Royal Decree of 27 January 1873, Nr. 19, last amended by deed of 11 May 2009 executed before prof. D.F.M.M. Zaman, civil law notary established in Rotterdam. As regards the above mentioned amendment of the Articles of Association a ministerial statement of no objection was granted on 7 May 2009 under number N.V. 2.080.

Note about translation

This document is an English translation of a document prepared in Dutch. In preparing this document, an attempt has been made to translate as literally as possible without jeopardizing the overall continuity of the text. Inevitably, however, differences may occur in translation and if they do, the Dutch text will govern by law.

In this translation, Dutch legal concepts are expressed in English terms and not in their original Dutch terms. The concepts concerned may not be identical to concepts described by the English terms as such terms may be understood under the laws of other jurisdictions.

Heineken
NV

Established in Amsterdam

Preliminary Article Definitions.

<i>Definitions</i>	In these Articles of Association the following words shall have the following meanings:
<i>Share</i>	a a "Share": a share in the capital of the Company;
<i>Shareholder</i>	b a "Shareholder": a holder of one or more Shares (which expressly does not include Euroclear Nederland), as well as a participant to a Collective Depot of Shares;
<i>Member Institution</i>	c a "Member Institution": a member institution ("aangesloten instelling") within the meaning of the Netherlands Giro Securities Transactions Act ("Wet giraal effectenverkeer") ("GSTA");
<i>Accountant</i>	d an "Accountant": a chartered accountant ("registeraccountant") or other accountant as referred to in Article 393 Book 2 of the Dutch Civil Code, or an organisation in which such accountants work together;
<i>Shareholders' Body</i>	e the "Shareholders' Body": the body of the Company consisting of Shareholders entitled to vote together with pledgees and usufructuaries to whom voting rights attributable to Shares accrue;
<i>General Meeting of Shareholders</i>	f a "General Meeting of Shareholders": a meeting of Shareholders and other persons entitled to attend meetings of Shareholders;
<i>Participant</i>	g a "Participant": a participant to a Collective Depot ("verzameldepot"), within the meaning of the GSTA;
<i>Subsidiary</i>	h a "Subsidiary": a subsidiary of the Company as referred to in Article 24a Book 2 of the Dutch Civil Code;
<i>Euroclear Nederland</i>	i "Euroclear Nederland": the central institute within the meaning of the GSTA, being the Netherlands Central Institute for Giro Transactions ("Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. ");
<i>Euronext</i>	j "Euronext": Euronext Amsterdam N.V.;
<i>Giro Depot</i>	k a "Giro Depot": a Giro Depot withing the meaning of the GSTA;
<i>Group Company</i>	l a "Group Company": a group company of the Company as referred to in Article 24b Book 2 of the Dutch Civil Code;
<i>Financial Statements</i>	m the "Financial Statements": the balance sheet, the income statement with explanatory notes and if the Company prepares consolidated financial statements, the consolidated financial statements;
<i>Official Price List</i>	n the "Official Price List": the Official Price List of, or an official substitution thereof in the name of Euronext;
<i>Executive Board</i>	o the "Executive Board": the Executive Board of the Company;
<i>Supervisory Board</i>	p the "Supervisory Board": the Supervisory Board of the Company;
<i>In writing</i>	q "in writing": by letter, by telecopier or e-mail or by any other legible and reproducible electronically sent message, provided that the identity of the sender can be sufficiently established;
<i>Company Body</i>	r a "Company Body": the Executive Board, the Supervisory Board or the Shareholders' Body;
<i>Collective Note</i>	s "Collective Note": the share certificate that embodies all bearer Shares;
<i>Collective Depot</i>	t "Collective Depot": a collective depot within the meaning of the GSTA.

Article 1 Name. Seat.

- Name. Seat.*
- 1 The name of the Company is: Heineken N.V.
 - 2 The official seat of the Company is in Amsterdam.

Article 2 Objects.

- Objects*
- The objects of the Company are to participate in and to manage other enterprises, companies and consortiums, the financing thereof and to provide security for debts of Group Companies and everything connected therewith or conducive thereto, all of this in the broadest sense.

Article 3 Duration.

- Duration*
- The Company commenced on the first day of January eighteenhundred and seventy-three and has been entered into for an indefinite period of time.

Article 4 Capital. Issuance of Shares. Pre-emptive rights. Payment.**Own Shares. Depositary Receipts. Capital decrease.**

- Authorised capital*
Par value
- 1 The authorised capital of the Company amounts to two billion five hundred million euros (EUR 2,500,000,000), divided into one billion five hundred sixty-two million five hundred thousand (1,562,500,000) Shares of one euro and sixty eurocent (EUR 1.60) each.
- Issuance of shares*
Price of issuance
Payment. Share premium
Payment in foreign currency
- 2 Without prejudice to the provisions of the law, Shares shall be issued pursuant to a resolution of the Shareholders' Body. The price and further conditions of the issuance shall be determined in the resolution to issue. Subject to the provisions in Article 80 paragraph 2 Book 2 of the Dutch Civil Code, the price of issuance may not be lower than par. The full nominal value of each Share must be paid upon issuance and in the event the Share is acquired for a higher amount, the balance between those amounts (share premium). In as far as no other contribution has been agreed upon, payment on a Share shall be made in cash. Payment in foreign currency may take place only with the approval of the Company.
- Pre-emptive right*
- 3 On issuance of Shares, each Shareholder shall have a right of pre-emption in proportion to the aggregate of his Shares, subject to the provisions in Article 96a paragraph 1 Book 2 of the Dutch Civil Code.
- Restriction or exclusion of pre-emptive right*
- Without prejudice to the provisions of the law, the right of pre-emption may be restricted or excluded by resolution of the Shareholders' Body. If a proposal is submitted to the Shareholders' Body to restrict or exclude the right of pre-emption, the proposal shall include a written explanation of the reasons for the proposal and the choice of the proposed price of issuance.
- Own shares*
- 4 The Company may not acquire its own Shares.
The acquisition by the Company of not fully paid in Shares in its own capital or depositary receipts therefor shall be void. The Company may only acquire fully paid up Shares in its own capital or depositary receipts therefor other than for no consideration, in the event:
- Conditions of acquisition*
- a the shareholders' equity after deducting the acquisition price, is not less than the paid-in and called-up part of the capital increased by the reserves that must be maintained by virtue of the law;
 - b the nominal amount of the Shares in its capital or depositary receipts the Company acquires, holds or holds in pledge, or is held by a Subsidiary, does not exceed half of the issued capital.
- With respect to the provision under a, the amount of the shareholders' equity according to the most recently adopted balance sheet, decreased with the acquisition price of Shares in the capital of the Company or depositary receipts therefor, the amount of loans as referred to in paragraph 5 second sentence and such distributions out of the profits or reserves to others as have become due by the Company and its

Subsidiaries after the balance sheet date, shall be decisive. If more than six months have expired since the end of any financial year without the Financial Statements having been adopted, then acquisition in accordance with this section is not permitted. Acquisition other than for no consideration is permitted only if the Shareholders’

Authorisation acquisition

Body has authorised the Executive Board to that effect. Such authorisation shall be valid for not more than eighteen months. The Shareholders’ Body shall determine in the resolution granting such authorisation how many Shares or depositary receipts therefor may be acquired, in what manner they may be acquired and between which limits the price must be.

Acquisition by virtue of personnel participation regulation

Subject authorisation is not required if the Company acquires Shares in its own capital that are destined to be transferred to employees of the Company or of a Group Company, pursuant to a regulation in force for them, provided subject Shares are included in the price list of a stock exchange.

Prohibited act on acquisition of shares by others

5 With a view to others taking or acquiring Shares in its capital or depositary receipts therefor, the Company is not allowed to extend loans, provide security, give a price guarantee, otherwise render itself answerable or bind itself besides or for third parties, be it severally or otherwise. With a view to the aforementioned, the Company may also not grant loans, unless the Executive Board resolves thereto and the further conditions as laid down in the law have been met. The prohibition as referred to in the previous two sentences also applies to its Subsidiaries, but shall not apply if the Shares or the depositary receipts therefor, are taken or acquired by or for employees employed by the Company or a Group Company.

No right to dividend on own shares

6 a The Company may not derive any right to dividend on Shares in its own capital. Upon the calculation of the distribution of profits, subject Shares shall not be taken into account, unless at the time of acquisition of the Shares by the Company the right of usufruct had already been created on subject Shares;

No voting right on own shares

b The Company may not cast a vote for Shares it holds in its own capital or on depositary receipts therefor held by the Company or on which it has a right of usufruct or a right of pledge. Nor may the pledgee or the usufructuary cast a vote on a Share held by the Company, if the right has been created by the Company. The stipulations of paragraph b shall correspondingly apply to Shares or depositary receipts therefor held by Subsidiaries, or on which Subsidiaries have created a right of usufruct or a right of pledge; and

Decrease quorum

c Upon establishing whether a certain part of the capital is represented or whether a certain part of the capital represents a majority, the capital is decreased by the amount of Shares for which no vote may be cast.

Alienation of own shares

7 Only after having obtained approval by the Supervisory Board, the Executive Board may alienate Shares the Company holds in its own capital or depositary receipts therefor held by the Company.

Co-operation to issuance of depositary receipts

8 The Company may only cooperate to the issuance of depositary receipts of Shares pursuant to a resolution of the Shareholders’ Body.

Capital decrease

9 With due observance of the relevant provisions of the law, the Shareholders’ Body may resolve to decrease the issued capital of the Company.

Legal Acts as referred to in Article 94

10 The Executive Board is authorized to perform the legal acts referred to in Article 94, paragraph 1 of Book 2 of the Civil Code, without prior approval of the Shareholders’ Body. The abovementioned legal acts may only be performed with the prior approval of the Supervisory Board.

Article 5 Shares. Selection bearer Shares or registered Shares.

Bearer Shares. Collective Note.

- Registered shares*
Bearer shares
- Exchanging shares*
- Collective note for bearer shares Euroclear Nederland*
- Addition to the collective note*
- Conversion of bearer shares into registered shares*
- Conversion of registered shares into bearer shares*
- 1 Upon request, a person who subscribes for Shares on the issuance thereof, shall acquire registered Shares. If such subscription in writing is not made, the person subscribing for Shares shall acquire rights relating to bearer Shares in the manner as described below. Exchanging bearer Shares for registered Shares or vice versa is always possible, provided the Shareholder requests the Executive Board to that effect in writing.
 - 2 All issued bearer Shares are embodied in the Collective Note.
 - 3 The Collective Note is destined to be kept on behalf of those entitled by Euroclear Nederland. Without prejudice to the stipulations of Article 13 paragraph 4 of these Articles of Association, Euroclear Nederland in its capacity of manager of the Giro Depot of bearer Shares, shall irrevocably be charged with the management of the Collective Note, and Euroclear Nederland shall irrevocable be authorised on behalf of the entitled parties to do everything that is necessary, including to accept, to transfer and to cooperate to the making of additions to and the striking off of the Collective Note. As long as the Collective Note is deposited with Euroclear Nederland, Euroclear Nederland shall (a) credit for a Share in the Giro Depot of bearer Shares every affiliated institution as designated by one or more entitled parties, that corresponds with the right of those entitled parties and (b) credit the Collective Depot of every affiliated institution as designated by one or more entitled parties accordingly, with the class of bearer Shares concerned.
 - 4 Upon issuance of bearer Shares, Euroclear Nederland shall (a) upon request of the Company procure the newly issued Shares to be added to the Collective Note, resulting in the increase of the number of bearer Shares thus embodied by the Collective Note and Euroclear Nederland shall (b) credit for the newly issued bearer Shares the Giro Depot of bearer Shares of every affiliated institution as designated by one or more entitled parties, that corresponds with the right of the entitled parties and (c) credit every affiliated institution as designated by one or more entitled parties accordingly in the Collective Depot with that affiliated institution of the bearer Shares concerned.
 - 5 In the event an entitled party desires one or more bearer Shares to be converted into registered Shares, the Shares concerned shall (a) be transferred by Euroclear Nederland to the entitled party and (the deed of) subject transfer shall be served on the Company, or the transfer shall be acknowledged by the Company, (b) the Company shall register the entitled party in the Shareholders register as holder of the registered Shares concerned, (c) Euroclear Nederland shall procure the Shares concerned to be stricken off of the Collective Note, resulting into the decrease of the number of bearer Shares thus embodied by the Collective Note, (d) Euroclear Nederland shall debit for a Share in the Giro Depot of bearer Shares the affiliated institution as designated by the entitled party, that corresponds with the Shares stricken off of the Collective Note and (e) the affiliated institution shall debit the entitled party accordingly in the Collective Depot with that affiliated institution of the bearer Shares concerned.
 - 6 If an entitled party to one or more registered Shares desires to convert these into bearer Shares, subject Shares shall (a) be transferred by the entitled party to Euroclear Nederland and the (deed of) transfer shall be served on the Company, or the transfer shall be acknowledged by the Company, (b) the entitled party's registration shall be cancelled from the Shareholders register by the Company, (c) Euroclear Nederland shall procure the addition of the Shares concerned to the Collective Depot, resulting into the increase of the number of bearer Shares thus embodied by the Collective Note, (d) Euroclear Nederland shall credit for a Share in the Giro Depot of bearer Shares the affiliated institution as designated by the entitled party, that corresponds with the

Shares added to the Collective Note and (e) the affiliated institution shall credit the entitled party accordingly in the Collective Depot with that affiliated institution of the bearer Shares concerned.

- Delivery of bearer shares*
- 7 A request for delivery of bearer Shares by a Participant pertains a request to register the Shares concerned. The stipulation in paragraph 5 shall correspondingly apply. Subject request may only concern the number of Shares to which the Participant is entitled.
- Signing of collective note*
- 8 The Collective Note shall be signed by two members of the Executive Board or by one or more persons thereto authorised by the Executive Board.

Article 6 Registered Shares. Shareholders register. Transfer of Shares.

- Registered shares. No share certificates
Shareholders register*
- 1 For registered Shares, no Share certificates shall be issued.
- 2 The Executive Board shall keep a register in which shall be recorded the names and addresses of all holders of registered Shares and which shall be kept with due observance of the relevant stipulations of the law. The names and addresses of pledgees and usufructuaries of Shares shall also be entered in the register, as well as a note indicating which rights attached to such Shares accrue to them. Each usufructuary and pledgee is obliged to inform the Company in writing of his address. The register shall be regularly updated. In the event the registered Shares belong to a Collective Depot or Giro Depot, the register may include the name and the address of the affiliated institution respectively Euroclear Nederland, stating the date on which the Shares commenced to belong to the Collective Depot respectively Giro Depot and the date of acknowledgement or serving of the deed.
- Non-negotiable extract from shareholders
register*
- 3 Upon request each holder of a registered Share, usufructuary or pledgee shall be furnished free of charge, with an extract from the register regarding his entitlement to a Share, stating the rights attached to the Share as referred to in paragraph 2. The extract shall not be negotiable.
- Recordings in the shareholders register*
- 4 Each transfer of registered Shares, each conversion of registered Shares into bearer Shares and each conversion of bearer Shares into registered Shares shall be recorded in the register. All recordings and entries in the register shall be signed off by two members of the Executive Board or by one or more persons thereto authorised by the Executive Board. The Executive Board shall deposit the register at the office of the Company for inspection by the Shareholders, as well as the usufructuaries and pledgees to whom the rights as referred to in paragraph 4 of the Articles 88 and 89 Book 2 of the Dutch Civil Code accrue. The previous sentence does not apply to that part of the register which is kept outside the Netherlands in compliance with the applicable legislation there or as a result of stock exchange regulations.
- Transfer of registered shares*
- 5 a The transfer of a registered Share, or of a restricted right thereon shall require a deed drawn up for that purpose and, unless the Company is itself a party to that deed, written acknowledgement of the transfer by the Company. Acknowledgement shall be effected in the deed, or by an officially dated statement of acknowledgement on the deed or on a copy or extract certified by a civil law notary or by the transferor. Official service of said deed or said copy or extract on the Company shall rank as acknowledgement.
- Creation right of pledge*
- b A right of pledge may be created also without acknowledgement by or service of the deed on the Company. Then Article 239 Book 3 of the Dutch Civil Code shall correspondingly apply, whereby the notice of the pledge as referred to in paragraph 3 of subject Article, shall be replaced by acknowledgement by or service of the deed on the Company.

<i>Partition registered share</i>	6	The provisions of paragraph 5 under a of subject Article shall correspondingly apply to:
<i>Creation and transfer of right of usufruct and right of pledge</i>	a	the partition of a registered Share in joint ownership;
	b	the creation and transfer of a right of usufruct and the creation of a right of pledge in a registered Share.

Article 7 Executive Board. Appointment. Suspension and dismissal. Remuneration

<i>Executive Board</i>	1	The Company is managed by an Executive Board under the supervision of a Supervisory Board.
<i>Number of members Appointment</i>	2	The Executive Board shall be constituted of two or more members. The Shareholders' Body appoints the members of the Executive Board from a non binding nomination for each appointment to be drawn up by the Supervisory Board. The Supervisory Board shall be authorised to also draw up a (non-binding) nomination for the appointment of a member of the Executive Board, without there being a vacancy.
<i>Nomination in convocation notice</i>	3	The nomination shall be included in the convocation notice for the General Meeting of Shareholders, in which the appointment shall be brought forward.
<i>Appointment proposal by one or more shareholders</i>	4	In the event one or more Shareholders, representing at least twenty-five percent (25%) of the issued capital, submit a written proposal to the Supervisory Board for the appointment of one or more members of the Executive Board, the Supervisory Board shall be obliged to discuss and to resolve on subject proposal within sixty (60) days of the receipt thereof. If the Supervisory Board accepts the proposal, then the Supervisory Board shall draw up (a) non binding nomination(s), stating subject persons.
	5	The Shareholders' Body shall be free in its appointment in the event the required nomination has not been drawn up within a term of sixty (60) days, to be calculated from the date on which the Supervisory Board was invited to draw up the required nomination.
<i>Remuneration policy</i>	6	The Company has a policy regarding the remuneration of the Executive Board. The policy is adopted by the Shareholders' Body upon proposal by the Supervisory Board. The remuneration policy shall at least contain the subjects as laid down in Article 283c up to and including e of Book 2 of the Dutch Civil Code, in as far as these subjects concern the Executive Board.
<i>Determination remuneration</i>	7	The remuneration of the members of the Executive Board shall be determined by the Supervisory Board, with due observance of the remuneration policy as adopted by the Shareholders' Body and the relevant statutory stipulations.
<i>Suspension and dismissal</i>	8	Members of the Executive Board may be suspended or dismissed by the Shareholders' Body at any time upon a resolution adopted with an absolute majority of the votes cast, if subject majority at least represents one-third of the issued capital.
<i>Second meeting</i>	9	If the required quorum is not present or represented, a new meeting shall be convened where the resolution may be adopted with an absolute majority of the votes cast, irrespective of the part of the capital represented.
<i>Suspension</i>	10	Members of the Executive Board may be suspended by the Supervisory Board at any time.
<i>Duration suspension</i>	11	A suspension after having been extended one or more times, in the aggregate may not last longer than three months.
<i>Indemnification</i>	12	The Company indemnifies every member of the Executive Board, as well as every former member of the Executive Board against: <ul style="list-style-type: none"> (i) substantiated costs made within the bounds of reasonableness with respect to conducting a defence (including lawyers fees), at law and otherwise, against third party claims for reimbursement of damages, or payment of fines, (judicially imposed) penalty payments and such like; and (ii) financial consequences of court rulings and resolutions of governmental authorities and amounts due relating to settlements that actually and in reasonableness have been paid by him to third parties,

due to an act or failing to act in the performance of his duties as member of the Executive Board or any other function he performs at the request of the Company. In the event and in as far as a Dutch judge has established by final and conclusive decision that the act or the failing to act could be characterised as seriously culpable, a member of the Executive Board can not claim indemnification. Moreover a member of the Executive Board can not claim indemnification in the event and in as far the loss of capital is covered by an insurance and the insurer has paid for the loss of capital, or in the event the loss involved is not covered by any insurance due to a cause attributable to the member of the Executive Board concerned. The Company may take out insurance against liability on behalf of the persons involved. By means of agreement the Supervisory Board may further implement the aforementioned.

Article 8 Executive Board. Duties. Decision making process.

<i>Duties</i>	1	Subject to the restrictions imposed by these Articles of Association, the Executive Board shall be charged with the management of the Company.
<i>Rules decision-making process</i>	2	After consultation with the Executive Board, the Supervisory Board may establish regulations pertaining inter alia to the decision making process and the procedure of the Executive Board.
<i>Chairman</i>	3	The Supervisory Board appoints one of the members of the Executive Board as chairman of the Executive Board.
<i>Provision of required information by the Executive Board</i>	4	The Executive Board shall provide the Supervisory Board in due time with the information required for the performance of its duties.
	5	At least once a year the Executive Board shall inform the Supervisory Board in writing of the broad outline of the strategic management, the general and financial risks and the management and control system of the Company.
<i>Approval by the Supervisory Board</i>	6	Without prejudice to any other applicable provisions of the law or these Articles of Association, the Executive Board shall require the approval of the Supervisory Board for resolutions relating to: <ul style="list-style-type: none"> a acquiring, alienating or encumbering participations in public companies (“naamloze vennootschappen”), or other legal entities; b exercising voting rights for shares in public companies or other legal entities; c issuance of Shares and granting rights to subscribe for Shares, as well as restricting or excluding pre-emptive rights; d acquiring and alienation of own Shares or depositary receipts therefor; e contracting debenture loans; f acts in law, such as entering into agreements by which the Company binds itself as guarantor and instituting legal proceedings, of which the interest for the Company amounts to more than five hundred thousand euro (EUR 500,000); g distribution of interim dividends; h the operational and financial objectives of the Company; i the strategy which must bring about the realisation of the objectives; j preconditions which are observed for the strategy regarding for instance the financial ratios; k granting personal loans, guarantees and such like to members of the Executive Board, or members of the Supervisory Board; l transactions involving conflicts of interest of members of the Executive Board which are of material interest for the Company and/or for the member of the Executive Board concerned; m the granting of loans as referred to in article 4 paragraph 5.
<i>Approval of the Shareholders’ Body</i>	7	Without prejudice to the stipulations of the previous paragraph and the other restrictions of the management authority of the Executive Board included in these Articles of Association or the law, the Executive Board shall require the prior approval

of the Shareholders' Body for resolutions relating to an important change of the identity or the character of the Company or enterprises, at least including:

- a the transfer of the enterprise, or the transfer of practically the entire enterprise of the Company to a third party;
- b the entering into or the termination of a lasting co-operation of the Company or a Subsidiary with another legal entity or company or as fully liable partner in a limited partnership ("commanditaire vennootschap") or general partnership ("vennootschap onder firma"), if such co-operation or termination is of fundamental importance to the Company;
- c acquiring or disposing of a participation in the capital of a company by the Company or a Subsidiary of the Company amounting to at least one third of the amount of the assets according to the Company's consolidated balance sheet plus explanatory notes as laid down in the latest adopted Financial Statements of the Company.

Article 9 Executive Board. Representation.

Conflict of interests. Absence or inability to act.

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| <i>Representation</i> | 1 | The Company shall be represented by the Executive Board. If the Executive Board comprises of two or more members, the Company shall be represented by two members of the Executive Board acting jointly, or by a member of the Executive Board acting jointly with an officer as referred to in Article 9.2. |
| <i>Appointing functionaries with general or limited representational powers</i> | 2 | The Executive Board may appoint officers with general or limited power to represent the Company and it may revoke or change subject appointment at any time. Each officer shall be competent to represent the Company, subject to the restrictions imposed on him. The Executive Board shall determine each officer's title. |
| <i>Conflict of interest</i> | 3 | In the event of a conflict of interest between the Company and a member of the Executive Board, the Company shall be represented by the member of the Executive Board or of the Supervisory Board thereto designated by the Supervisory Board. |
| <i>Absence or prevention</i> | 4 | In the event of absence or inability to act of one or more Executive Board members, the remaining members respectively the remaining member of the Executive Board shall temporarily be entrusted with the entire management of the Company. In the event of absence or inability to act of the entire Executive Board, the management of the Company shall temporarily be entrusted to the delegated member of the Supervisory Board, unless the Supervisory Board resolves to temporarily charge one or more persons, whether or not from among its members, with the management of the Company. |

Article 10 Supervisory Board. Appointment. Suspension and dismissal. Remuneration.

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| <i>Number of members</i> | 1 | The Company has a Supervisory Board consisting of three or more members. With due observance of the limit as laid down in the previous sentence, the number of members of the Supervisory Board shall be determined by the Supervisory Board. |
| <i>Profile</i> | 2 | The Supervisory Board shall draw up a profile regarding its size and composition, taking into account the nature of the enterprise, its activities and desired expertise and background of the Supervisory Board members. |
| <i>Appointment</i> | 3 | Members of the Supervisory Board shall be appointed by the Shareholders' Body. A member of the Supervisory Board shall be appointed for a maximum period of four years, provided that, unless a member of the Supervisory Board retires sooner, his term shall expire on the date of the next General Meeting of Shareholders to be held in the fourth year following the year of his appointment. A retiring member of the Supervisory Board may only be re-appointed twice. Subject restriction does not apply to: (i) relations by blood or affinity of Mr A.H. Heineken, former chairman of the Executive Board; and (ii) persons that are also members of the Board of Directors of Heineken Holding N.V. |

The Supervisory Board shall draw up a rotation plan for the members of the Supervisory Board.

Suspension and dismissal

4 The appointment of members of the Supervisory Board shall take place from a non-binding nomination to be drawn up by the Supervisory Board. Article 7 paragraph 2 second sentence, and paragraphs 3 through 5 shall correspondingly apply to the appointment of a member of the Supervisory Board.

Remuneration

5 The members of the Supervisory Board may be suspended or dismissed by the Shareholders' Body. The provisions of Article 7, paragraphs 8, 9 and 11 shall correspondingly apply.

Indemnification

6 The remuneration of each member of the Supervisory Board shall be determined by the Shareholders' Body.

7 The Company indemnifies every member of the Supervisory Board, as well as every former member of the Supervisory Board against:

- (i) substantiated costs made within the bounds of reasonableness with respect to conducting a defence (including lawyers fees), at law and otherwise, against third party claims for reimbursement of damages, or payments of fines, (judicially imposed) penalty payments and such like; and
- (ii) financial consequences of court rulings and resolutions of governmental authorities and amounts due relating to settlements that actually and in reasonableness have been paid by him to third parties,

due to an act or failing to act in the performance of the duties as member of the Supervisory Board or any other function he performs at the request of the Company. In the event and in as far as a Dutch judge has established by final and conclusive decision that the act or the failing to act could be characterised as seriously culpable, a member of the Supervisory Board can not claim indemnification. Moreover a member of the Supervisory Board can not claim indemnification in the event and in as far as the loss of capital is covered by an insurance and the insurer has paid for the loss of capital, or in the event the loss involved is not covered by any insurance due to a cause attributable to the member of the Supervisory Board concerned. The Company may take out insurance against liability on behalf of the persons involved. By means of agreement the Executive Board may further implement the aforementioned.

Article 11 Supervisory Board. Duties and powers. Working procedures and decision-making.

Supervisory duties

- 1 The Supervisory Board is responsible for the supervision of the management by the Executive Board and of the general course of affairs in the Company and the business connected with it. It shall assist the Executive Board with advice. In performing their duties, the Supervisory Board members shall act in accordance with the interest of the Company and of the business connected with it.
- 2 The Supervisory Board shall have access to the buildings and premises of the Company and shall be authorised to inspect the books and records of the Company. The Supervisory Board may designate one or more persons from among its members or an expert to exercise these powers. The Supervisory Board may also otherwise be assisted by experts.

Appointment chairman and vice-chairman

3 The Supervisory Board shall appoint from among its members a chairman and a vice-chairman.

Delegated Supervisory Board member

4 The Shareholders' Body may appoint one of the members of the Supervisory Board as delegated member of the Supervisory Board. The delegation of powers to the delegated member of the Supervisory Board may not exceed the duties of the Supervisory Board and does not comprise the management of the Company. It intends to effect a more intensive supervision and advice and more regular consultation with the Executive Board. The Supervisory Board may grant a special remuneration to the delegated member of the Supervisory Board.

- Authorisation to be represented by a co-member* 5 A member of the Supervisory Board may have himself represented by a co-member holding a proxy in writing.
- Meeting* 6 The Supervisory Board shall meet whenever the chairman, the vice-chairman, the delegated Supervisory Board member, or two Supervisory Board members, deem(s) such necessary. The Supervisory Board meetings shall be attended by one or more members of the Executive Board if these are invited to attend.
- Resolutions outside a meeting* The Supervisory Board may also adopt resolutions without holding a meeting, provided the proposal in question has been submitted to all members of the Supervisory Board and none has objected to this form of decision-making. A resolution thus adopted shall be reported in the subsequent meeting of the Supervisory Board.
- Rules decision-making process* 7 The Supervisory Board shall lay down rules regarding the decision making process and the working methods of the Supervisory Board. In that respect the Supervisory Board may determine – among other things – with which duty each member of the Supervisory Board shall specifically be charged. The rules regarding the decision making process and the division of duties shall be laid down in regulations.
- Adopting resolutions by simple majority* 8 Except for the stipulations as laid down in paragraph 9 of this Article, the Supervisory Board resolves with a simple majority of the votes cast.
- Quorum presence of the delegated member of the Supervisory Board* 9 Resolutions requiring the approval of the Supervisory Board as referred to in Article 8 paragraph 6 under a, b and c may be adopted in any case only by a majority of the members of the Supervisory Board in function, in any case including the delegated member of the Supervisory Board, if appointed. Upon granting the approval for exercising the voting right as referred to in Article 8 paragraph 6 under b, the Supervisory Board shall also determine the manner in which subject voting right must be exercised.

Article 12 Financial year. Financial Statements. Appropriation of profits.

- Financial year Drawing up financial statements* 1 The financial year of the Company shall be the calendar year. The Company books shall be closed on the thirty first day of December of each year. Annually not later than four months after the end of the financial year, the Executive Board shall prepare the Financial Statements and shall deposit the same accompanied by the annual report for inspection by the Shareholders at the Company's office.
- Signing of financial statements* 2 The Financial Statements as drawn up by the Executive Board shall be submitted to the Supervisory Board timely within the term as referred to in paragraph 1 third sentence. Subsequently the aforementioned documents shall be signed by all the members of the Executive Board and all the members of the Supervisory Board and submitted with the Executive Board's annual report and the Supervisory Board's report to the annual General Meeting of Shareholders to be held not later than in June for the adoption of the Financial Statements. If the signature of one or more of them is lacking, this shall be stated and reasons for this omission shall be given.
- Discharge* 3 In the General Meeting of Shareholders in which it is resolved to adopt the Financial Statements, a separate proposal shall be brought forward to discharge the members of the Executive Board for their management and of the members of the Supervisory Board for their supervision thereon, to the extent of such management being apparent from the Financial Statements.
- Profit* 4 The profits of a financial year shall mean the credit balance of the income statement as adopted by the Shareholders' Body.
- Profit out of the distributable reserves* 5 Distributions of profit may take place in as far as the equity of the Company exceeds the amount of the paid-in and called up part of the issued capital, increased with the reserves which shall be maintained by virtue of the law.
- Distribution after adoption financial statements* 6 Provided the stipulations of the previous paragraph are met, distribution of profit shall take place within a month after the Financial Statements having been adopted.
- Dividend* 7 Of the profits, payment shall first be made, if possible, of a dividend of six percent (6%) of the issued part of the authorised capital. The remaining amount shall be at the disposal of the Shareholders' Body.

Interim dividend

- 8 With due observance of the stipulations of the law and subject to the approval of the Supervisory Board, the Executive Board may resolve to pay an interim dividend chargeable to the dividend to be expected over the financial year in question.

Distribution in kind of shares

- 9 At the request of the Executive Board which is subject to the approval of the Supervisory Board, the Shareholders' Body may resolve to make a distribution in kind of Shares in the capital of the Company and to make distributions chargeable to one or more reserves that need not be maintained by virtue of the law.

Article 13 General Meetings of Shareholders.*Annual General Meeting of Shareholders*

- 1 Annually, within six months after the end of the financial year, the Annual General Meeting of Shareholders shall be held, in which – unless in accordance with the law the term has been extended – inter alia the following items shall be brought forward:
- a the discussion of the annual report;
 - b the discussion and adoption of the Financial Statements;
 - c discharge of the members of the Executive Board for their management;
 - d discharge of the members of the Supervisory Board for their supervision on the management;
 - e reservation and distribution policy (the height and destination of the reservation, the height and form of the dividend);
 - f appropriation of profits;
 - g any substantial change in the corporate governance structure of the Company;
 - h the (re-)appointment of the external Accountant or, in as far as applicable, another expert appointed thereto by virtue of the law;
 - i possible other proposals brought forward by one or more holders of Shares with due observance of paragraph 8 of this Article, the Supervisory Board or the Executive Board, and furthermore with due observance of additional relevant provisions of the law and the Articles of Association.

Place of meetings

- 2 The General Meetings of Shareholders shall be held in Amsterdam.

Convocations

- 3 The Executive Board or the Supervisory Board shall convene the General Meetings of Shareholders at least fourteen (14) days in advance – not including the day of convocation and the day of the meeting – by means of announcement in at least one nationwide daily newspaper in the Netherlands and in the Official Price List. Convocation of holders of bearer Shares may furthermore be made by any other electronically made public announcement (such as on the Company's website), provided it is directly and without interruption accessible up to the start of the meeting. Convocation of holders of registered Shares shall be made by letters to the addresses of the holders of registered Shares, as shown in the shareholders register. Convocation of a holder of registered Shares may furthermore, provided such holder has consented thereto, be made by means of a legible and reproducible electronically sent message to the address indicated for that purpose by such holder of registered Shares to the Company. The obligation to convoke by notice in a nationwide daily newspaper and in the Official Price List shall no longer exist, if and to the extent the obligation thereto does no longer exist pursuant to the General Rules of Euronext (or any regulation replacing these). Any notification shall include the agenda of the meeting or the announcement that it is available for inspection by the Shareholders at the offices of the Company.

Meeting rights

- 4 Each Shareholder shall be entitled, either personally or by proxy authorised in writing, to attend the General Meeting of Shareholders, to address the meeting and to exercise his voting rights. The Executive Board may determine that the powers set out in the preceding sentence, may also be exercised by means of electronic communication. If a Shareholder participates by means of electronic communication, it shall be required that the electronic communication allows for identification of such Shareholder and for such Shareholder to directly take notice of the proceedings in

the meeting and to cast votes. Furthermore, it shall be required that the electronic communication allows for the Shareholder to participate in discussions in the meeting. The Executive Board may subject the use of the electronic communication and the manner in which the requirements mentioned in this Article should be satisfied, to conditions. Conditions set by the Executive Board in relation to the use of the electronic communication shall be indicated in the convocation mentioned in paragraph 3 of this Article.

- 5 With respect to the voting right and the right to participate in a meeting attached to bearer Shares, the Company shall, correspondingly applying Article 88 and 89 of Book 2 of the Dutch Civil Code, also recognise as a Shareholder such person as shall be mentioned in a written statement of a Member Institution to the effect that the number of bearer Shares mentioned in such statement belongs to such Member Institution's Collective Depot and that the person mentioned in such statement is a Participant in its Collective Depot, and will remain to be so, until the conclusion of the meeting, provided that such statement is filed in time at the place stated in the notice convening the meeting, against a receipt, which receipt will serve as a ticket of admission for the meeting.

Notice

The notice of the meeting shall state the date on which the notice of the Member Institution must ultimately be filed. Such date may not be earlier than the seventh day prior to the day of the General Meeting of Shareholders.

Record date

- 6 The Executive Board may determine in the convocation notice for a General Meeting of Shareholders that a record date as referred to in Article 2:119 of the Dutch Civil Code is set. The Executive Board may furthermore set a record date as referred to in Article 2:117b of the Dutch Civil Code. The record date shall be set no earlier than the thirtieth day prior to the meeting. If the Executive Board has decided to set a registration record date, the statement of the member institution referred to in Article 13 paragraph 5 shall only have to include that the bearer Shares mentioned in the statement formed part of the collective depot of the Member Institution involved at that specific time of registration and that the person mentioned in the statement was a participant in its Collective Depot at that specific time of registration for the number of Shares mentioned. The convocation notice shall state the record date, as referred above, and the manner in which those entitled to attend and/or vote in the meeting can be registered and the manner in which they may exercise their rights.

Power of attorney

- 7 The powers set out in Article 13 paragraph 4 may be exercised by proxy authorised in writing, provided that the written proxy is received by the Executive Board no later than on the date indicated for that purpose in the convocation notice. Each person entitled to vote or otherwise entitled to attend a meeting or such person's representative, shall, whether or not by means of electronic communication, sign the attendance list, stating the number of Shares and votes represented by such person."

Extraordinary General Meeting

- 8 An extraordinary General Meeting of Shareholders shall be held if the Executive Board or the Supervisory Board has convened such a meeting; the Executive Board and the Supervisory Board shall moreover be obliged to convene an extraordinary General Meeting of Shareholders, to be held within four weeks after receipt of a request to that effect made by the holders, collectively holding at least one quarter of the issued Share capital. This meeting shall deal with the subjects as stated by those who wish to hold the meeting.

Placing of subjects on the agenda by shareholders

- 9 If the Executive Board has been requested in writing not later than sixty (60) days prior to the date of the General Meeting of Shareholders, to deal with a subject by one or more holders of Shares who solely or jointly (i) represent at least one per cent (1%) of the issued capital, or (ii) at least represent a value of fifty million euro (EUR 50,000,000), then the subject will be included in the convocation or announced in a similar way, unless this would be contrary to an overriding interest of the Company.

- Providing information* 10 The Executive Board and the Supervisory Board shall provide the Shareholders' Body with all requested information, unless this would be contrary to an overriding interest of the Company. If the Executive Board and the Supervisory Board invoke an overriding interest, they must give reasons.
- Circular letter shareholders* 11 The Executive Board and the Supervisory Board shall inform the General Meeting of Shareholders by means of a circular letter or explanatory note in the agenda on all the facts and circumstances that are relevant for the proposals on the agenda in as far these concern an approval, delegation or authorisation to be granted.
- Article 14 General Meetings of Shareholders. Chairman. Decision-making. Minutes.**
- Chairman meetings* 1 All General Meetings of Shareholders shall be presided over by the chairman or the vice-chairman of the Supervisory Board, or in his absence, by one of the Supervisory Board members present at the meeting, to be designated by them in mutual consultation. If no members of the Supervisory Board are present, the meeting shall provide its own chairman.
- Manner of voting* 2 The chairman determines the manner of voting.
- Resolutions* 3 At all General Meetings of Shareholders resolutions shall be adopted by an absolute majority of the votes cast, except for those cases in which the law or these Articles of Association prescribe a greater majority.
- One vote per share Votes cast electronically* 4 Each Share confers the right to issue one vote. The Executive Board may determine in the convocation notice that any vote cast prior to the General Meeting of Shareholders by means of electronic communication, shall be deemed to be a vote cast in the General Meeting of Shareholders. Such a vote may not be cast prior to the ultimate allowed registration record date mentioned in Article 13 paragraph 6. A Shareholder who has cast his vote prior to the General Meeting of Shareholders by means of electronic communication, remains entitled to, whether or not represented by a holder of a written proxy, participate in the General Meeting of Shareholders and to address the General Meeting of Shareholders. Once cast, a vote can not be revoked. Those who, at a moment indicated for that purpose by the Executive Board in the convocation of a General Meeting of Shareholders, have the rights to attend the General Meeting of Shareholders and to exercise voting rights therein and are registered as such in a register designated for that purpose by the Executive Board, shall for the purpose of the preceding provision of this paragraph be deemed to have the rights to attend the General Meeting of Shareholders and to exercise voting rights therein, regardless who, at the moment of the General Meeting of Shareholders holds the Shares concerned.
- Voting right also valid for other interest* 5 Votes are also validly cast for Shares held by those, whom for a different reason than as Shareholder of the Company, by virtue of the resolution would be granted any right towards the Company, or would be discharged from any obligation towards the Company.
- Blank votes* 6 Blank votes shall be considered as not having been cast.
- Conclusive opinion chairman* 7 The opinion expressed by the chairman in the General Meeting of Shareholders on the result of a vote is conclusive. The same applies to the contents of an adopted resolution in as far as the voting concerned a proposal which had not been recorded in writing. However if the opinion is contested immediately after it having been pronounced, a new vote shall take place if the majority, or, if the original vote had not taken place by roll-call or in writing, one holder of voting rights present demands a new vote. Through subject new vote the legal consequences of the original vote shall be annulled.
- Minutes of meeting* 8 The proceedings in the General Meetings of Shareholders shall be recorded in minutes taken by a secretary to be designated by the Shareholders' Body, which minutes shall be confirmed and signed by the chairman of the meeting and by the person who took minutes.
- Notarial record of the proceedings* 9 In the event that a notarial record of the proceedings of a General Meeting of Shareholders is drawn up, the countersigning by the chairman or by a Shareholder designated by the chairman shall suffice.

- 10 Upon request the record of the General Meeting of Shareholders as referred to in paragraph 8 or 9 shall be submitted to Shareholders ultimately within three months after the conclusion of the meeting.

Article 15 Amendment of the Articles of Association and dissolution.

Resolutions to amend the Articles of Association and to dissolve

- 1 A resolution to amend the Articles of Association or to dissolve the Company may only be adopted in a General Meeting of Shareholders, in which at least half of the issued capital is represented and exclusively either at the proposal of the Supervisory Board or at the proposal of the Executive Board which has been approved by the Supervisory Board, or at the proposal of one or more Shareholders representing at least half of the issued capital.

Announcement proposal for amendment of the Articles of Association

- 2 When a proposal to amend the Articles of Association is to be made to the Shareholders' Body, such shall be stated in the convocation, whereas at the same time a copy of the proposal stating the proposed amendment verbatim, shall be deposited at the offices of the Company for inspection by each Shareholder until the conclusion of the General Meeting of Shareholders.

Second meeting

- 3 When the required capital is not represented at a meeting, a second meeting shall be held within four weeks after the first General Meeting of Shareholders, in which a resolution as referred to in the first sentence of this Article may be adopted, regardless of the capital represented, but at a proposal as aforementioned. The convocation for subject General Meeting of Shareholders may first be issued after the date on which the initial General Meeting of Shareholders was held.

Article 16 Liquidation.

Liquidation

- 1 In the event of the dissolution of the Company by virtue of a resolution of the Shareholders' Body, the members of the Executive Board shall be charged with the liquidation under the supervision of the Supervisory Board, unless the Shareholders' Body, at a proposal by the Supervisory Board should charge a special committee with the liquidation.

Remuneration

- 2 In its resolution to dissolve the Company, the Shareholders' Body shall also determine the remuneration of the liquidators and the Supervisory Board, if the latter would be charged with supervision of the dissolution, which remuneration may comprise an amount equal to a percentage of the balance of the liquidation to be determined by the Shareholders' Body.

- 3 The liquidation shall otherwise be subject to the relevant statutory provisions.

Article 17 Convocations and notifications.

Convocations and notifications

Without prejudice to the provisions of Article 96a paragraph 4 of the Dutch Civil Code, all convocation notices for General Meetings of Shareholders, all announcements relating to dividends and other distributions and all other notifications to Shareholders shall take place by announcement in at least one nationwide daily newspaper, in the Official Price List and on the website of the Company. The obligation to make an announcement in a nationwide daily newspaper in the Netherlands and in the Official Price List, as well as in the Official Price List shall no longer exist, if and to the extent the obligation thereto does no longer exist pursuant to the law or to the General Rules of Euronext (or any regulation replacing these).

Transitory provision

The transitory provisions in the Articles of Association as these read prior to the amendment of the Articles of Association of the twenty-sixth day of April two thousand five becoming effective remain fully applicable. References to the Articles of Association in such transitory provisions also refer to the Articles of Association as these read prior to the amendment of the Articles of Association of the twenty-sixth day of April two thousand five becoming effective.

**Regulations
(Terms of Reference)
for the Supervisory Board of Heineken N.V.**

Adopted at the meeting of the Supervisory Board of Heineken N.V. of 25 August 2009.

Definitions:

The terms used in these Regulations are defined as follows:

- the Company:
Heineken N.V.;
- the Supervisory Board:
the Company's Supervisory Board;
- the Chairman:
the Chairman of the Supervisory Board of Heineken N.V.;
- the Vice-Chairman:
the Vice-Chairman of the Supervisory Board of Heineken N.V.;
- the Executive Board:
the Company's Executive Board;
- the General Meeting:
the General Meeting of Shareholders of Heineken N.V.;
- the Dutch Corporate Governance Code:
the Dutch Corporate Governance Code of 10 December 2008.

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article 1:	Status and contents of the Regulations
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The contents of these regulations are public and are posted on the Company's website: www.heinekeninternational.com

Status and contents of the Regulations

Article 1

- 1.1 These Regulations are complementary to the rules and regulations (from time to time) applicable to the Supervisory Board under primary and secondary legislation, the Dutch Corporate Governance Code, the regulations (terms of references of the Committees and the Company's Articles of Association.
- 1.2 Where these Regulations are inconsistent with primary and secondary legislation or the Company's Articles of Association, the law or, as the case may be, the Articles of Association shall prevail. Where these Regulations conform to the Articles of Association but are inconsistent with primary and secondary legislation, the latter shall prevail. If one or more provisions of these Regulations are or become invalid, this shall not affect the validity of the remaining provisions. The Supervisory Board shall replace the invalid provisions by those which are valid and the effect of which, given the contents and purpose of these Regulations, is to the greatest extent possible similar to that of the invalid provisions.
- 1.3 The following annexes are attached to, and form an integral part of these Regulations:
 - Annex A: the profile of the Supervisory Board's size and composition;
 - Annex B: the Regulations governing the Audit Committee of the Supervisory Board;
 - Annex C: the Regulations governing the Remuneration Committee of the Supervisory Board;
 - Annex D: the Regulations governing the Selection and Appointment Committee of the Supervisory Board;
 - Annex E: the Regulations governing the Voorbereidings (Preparatory) Committee of the Supervisory Board.
- 1.4 The Executive Board unanimously declared that:
 - a. it will comply with, and be bound by the obligations arising from, these Regulations to the extent that they apply to it and its members;
 - b. on appointment of new members it will cause such members to issue a declaration as referred to in a) above.
- 1.5 The external auditor of the Company declared that it will comply with, and be bound by the obligations arising from, these Regulations to the extent they apply to him/her.

Responsibilities of the Supervisory Board

Article 2

- 2.1 In compliance with the relevant provisions in primary and secondary legislation, the Dutch Corporate Governance Code and the Articles of Association, the role of the Supervisory Board is to supervise the management by the Executive Board as well as the general course of affairs at the Company and its affiliated enterprises. The Supervisory Board assists the Executive Board with advice. In discharging its role the Supervisory Board shall be guided by the interests of the Company and its affiliated enterprises and shall take into account the relevant interests of the Company's stakeholders. The Supervisory Board shall also have due regard for corporate social responsibility issues that are relevant to the enterprise. The Supervisory Board is responsible for the quality of its own performance.
- 2.2 The legal and statutory authorities of the Supervisory Board rest with the Supervisory Board as a whole and are exercised under joint responsibility.
- 2.3 The duties of the Supervisory Board shall also include:
- a. exercising supervision and advising the Executive Board on:
 - i. the achievement of the Company's objectives;
 - ii. the corporate strategy and the risks connected to the business activities;
 - iii. the design and effectiveness of the internal risk-management and control systems;
 - iv. the financial reporting process;
 - v. compliance with primary and secondary legislation;
 - vi. the Company-shareholder relationship; and
 - vii. corporate social responsibility issues that are relevant to the enterprise.
 - b. disclosing, observing and maintaining the Company's corporate governance structure;
 - c. approving the resolutions mentioned in Article 8, section 6 of the Articles of Association;
 - d. selecting and nominating for appointment (by the General Meeting) the Company's external auditor;
 - e. selecting and nominating for appointment (by the General Meeting) members of the Executive Board, proposing for adoption (by the General Meeting) the remuneration policy for Executive Board members, determining the remuneration (duly observing the afore-mentioned remuneration policy) as well as the contract conditions of the Executive Board members;
 - f. selecting and nominating for appointment (by the General Meeting) the members of the Supervisory Board as well as proposing the fee for its members for adoption (by the General Meeting);
 - g. evaluating and assessing the functioning of the Executive Board and the Supervisory Board as well as their individual members and its committees (including an assessment of the functioning of the committees, the profile of the Supervisory Board and the induction, training and education programme);

- h. dealing with, and deciding on, reported (potential) conflicts of interest as referred to in article 10 between the Company on the one hand and Supervisory Board members and/or Executive Board members and/or the external auditor on the other;
 - i. approving resolutions to conclude transactions between the Company and natural or legal persons holding at least 10% of the Company's shares, insofar as such transactions are of material importance to the Company.
 - j. dealing with, and deciding on, reported alleged irregularities affecting the functioning of Executive Board members as referred to in article 11.
 - k. ensuring that the Executive Board complies with the internal procedures relating to the publication of all financial information;
 - l. ensuring that the Executive Board fulfils its responsibility for the quality and completeness of publicly disclosed financial reports.
- 2.4 The annual statements of the Company shall include a report of the Supervisory Board. In this report the Supervisory Board describes its activities in the financial year and which includes the specific statements and information required by the Dutch Corporate Governance Code.
- The following information about each Supervisory Board member shall be included in the report of the Supervisory Board (a) gender, (b) age, (c) profession, (d) principal position, (e) nationality, (f) other positions, in so far as they are relevant to the performance of the duties of the Supervisory Board member, (g) date of initial appointment and (h) the current term of office.
- 2.5 The Supervisory Board shall determine the remuneration of the individual members of the Executive Board on a proposal by the Remuneration Committee, within the scope of the remuneration policy adopted by the General Meeting.
- 2.6 The report of the Supervisory Board shall include the principal points of the remuneration report concerning the remuneration policy of the Company. This shall describe transparently and in clear and understandable terms the remuneration policy that has been pursued and give an overview of the remuneration policy to be pursued. The full remuneration of the Executive Board, broken down into its various components shall be presented in the remuneration report in clear and understandable terms. It shall contain an account of the manner in which the remuneration policy has been implemented in the past financial year, as well as an overview of the remuneration policy planned by the Supervisory Board for the next financial year and subsequent years. The report shall explain how the chosen remuneration policy contributes to the achievement of the long-term objectives of the Company and its affiliated enterprises in keeping with the risk profile.
- The Remuneration Report will contain the information as required by the Dutch Corporate Governance Code (11.2.10 to 11.2.15).

The remuneration report of the Supervisory Board shall, be posted on the Company's website.

- 2.6 The remuneration policy, based on the requirements as stated in in paragraph II.2 of the Dutch Corporate Governance Code (in as far as Heineken applies the provisions) proposed for the next financial year and subsequent years as specified in the remuneration report shall be submitted to the General Meeting for adoption. Every material change in the remuneration policy shall also be submitted to the General Meeting for adoption. Schemes whereby Executive Board members are remunerated in the form of shares or rights to subscribe for shares, and major changes to such schemes, shall be submitted to the General Meeting for approval.

Composition, expertise and independence of the Supervisory Board

Article 3

- 3.1 The Supervisory Board consists of such number of members as determined in accordance with the Articles of Association. (*Articles of Association: the Supervisory Board consists of three or more members and with due observance of this limit, the Supervisory Board shall determine the number of members. Profile Supervisory Board: the maximum number will be 10*).
- 3.2 In consultation with the Executive Board, the Supervisory Board shall draw up a profile of its size and composition, taking into account the nature of the business, its activities and the desired expertise and background. The profile shall deal with the aspects of diversity in the composition of the Supervisory Board that are relevant to the Company and shall state what specific objective is pursued by the board in relation to diversity. In so far as the existing situation differs from the intended situation, the Supervisory Board shall account for this in the report of the Supervisory Board and shall indicate how and within what period it expects to achieve this aim. This profile shall be evaluated from time to time. The profile is a public document, which is available for inspection at the Company's offices and shall be posted on the Company's website.
- The profile of the Supervisory Board is attached as Annex A.
- 3.3 Each Supervisory Board member shall be capable to assess the broad outline of the overall policy. Each Supervisory Board member shall have the specific expertise required for the fulfilment of the duties designated to him within the framework of the Supervisory Board profile. The composition of the Supervisory Board shall be such that it is able to fulfil its duties properly. The Supervisory Board shall aim for a diverse composition in terms of such factors as gender and age. A Supervisory Board member shall be reappointed only after careful consideration. The profile referred to shall also be applied in the case of re-appointment.

- 3.4 At least one member of the Supervisory Board shall be a financial expert, with relevant knowledge and experience of financial administration and accounting for listed companies or other large legal entities.
- 3.5 The number of supervisory boards of which an individual may be a member, along with other (additional) functions, shall be limited to such an extent that the proper performance of his duties is assured. This aspect shall be paid attention to not only when submitting a nomination for appointment or reappointment in the Supervisory Board, but also when a Supervisory Board member accepts other functions during the period of his membership. Each Supervisory Board member shall ensure that all his (additional) functions are always known to the Supervisory Board. In any event, the number of supervisory boards of Dutch listed companies of which an individual may be a member shall be limited to five, for which purpose the chairmanship of a supervisory board counts double.
- 3.6 The composition of the Supervisory Board shall be such that the members are able to act critically and independently of one another and of the Executive Board and any particular interests.
- 3.7 All Supervisory Board members, with the exception of not more than one member, shall be independent within the meaning of best practice provision III.2.2 of the Dutch Corporate Governance Code as applied from time to time by Heineken N.V.
- 3.8 The report of the Supervisory Board shall contain a statement whether, in view of the Supervisory Board, best practice provision III.2.1 of the Dutch Corporate Governance Code has been fulfilled, and shall also state which Supervisory Board member is not considered to be independent, if any.
- 3.9 No more than one former Executive Board member shall have a seat on the Supervisory Board.
- 3.10 The delegated Supervisory Board member at the Company has permanent status. The authorities assigned to him are those assigned under the Company's Articles of Association. The delegated member of the Supervisory Board does however not, enter the domain of managing the Company and the delegation does not affect the Supervisory Board's task and authority.

Chairman, Vice-Chairman and Company Secretary

Article 4

- 4.1 The Supervisory Board appoints a Chairman and a Vice-Chairman from among its members. The Chairman of the Supervisory Board may not be a former member of the Company's Executive Board.

4.2 The Chairman of the Supervisory Board shall ensure the proper functioning of the Supervisory Board and its Committees and shall act on behalf of the Supervisory Board as the main contact for the Executive Board and for shareholders regarding the functioning of the Executive Board and the Supervisory Board members. In his capacity as Chairman he shall ensure the orderly and efficient conduct of the General Meeting. The Chairman of the Supervisory Board is assisted in his role by the Company Secretary.

The Chairman of the Supervisory Board shall ensure that:

- a. the members of the Supervisory Board follow their induction, training and education programme;
- b. the members of the Supervisory Board receive in good time all information which is necessary for the proper performance of their duties;
- c. there is sufficient time for consultation and decision-making by the Supervisory Board;
- d. the Committees of the Supervisory Board function properly;
- e. the performance of the Executive Board members and the Supervisory Board members is assessed at least once a year;
- f. the Supervisory Board elects a Vice-Chairman; and
- g. the contacts between the Supervisory Board and both the Executive Board and the external auditor proceed properly.

4.3 The Company Secretary shall assist the Supervisory Board. The Company Secretary shall ensure that the correct procedures are followed and that the Supervisory Board acts in accordance with its statutory obligations as well as its obligations under the Articles of Association.

The Company Secretary shall assist the Chairman in the actual organisation of the affairs of the Supervisory Board (information, agenda, evaluation, training programme, etc.).

The Company Secretary shall, either on the recommendation of the Supervisory Board or otherwise, be appointed and dismissed by the Executive Board, after the approval of the Supervisory Board has been obtained.

4.4 The vice-chairman of the Supervisory Board shall deputise for the Chairman when the occasion arises. By way of addition to best practice provision III.1.7 of the Dutch Corporate Governance Code, the vice-chairman shall act as contact for individual Supervisory Board members and Executive Board members concerning the functioning of the Chairman of the Supervisory Board.

Functions and Committees of the Supervisory Board

Article 5

5.1 The Supervisory Board comprises a Preparatory Committee, a Remuneration Committee, a Selection and Appointment Committee and an Audit Committee. These Committees are subject to their relevant regulations, which are drawn up by the Supervisory Board and which are posted on the Company's website. These regulations and the composition of the Committees will be posted on the Company's website. The regulations shall indicate the role and responsibility of the committees concerned and the manner in which it discharges its duties. The regulations may provide that a maximum of one member of each committee may not be independent within the meaning of the Dutch Corporate Governance Code best practice provision III.2.2 (in so far Heineken applies the best practice provision).

The respective regulations (terms of reference) of the Committees are attached as Annexes B, C, D and E.

These Committees perform their duties under the responsibility of the Supervisory Board. The Supervisory Board shall receive from each of the Committees a report of its deliberations and findings.

5.2 The function of the Committees is to prepare and, if necessary, to carry out the resolutions and the actions to be taken by the Supervisory Board in the domain entrusted to the Committee concerned. The entire Supervisory Board remains responsible for its decisions even if they were prepared by one of the Committees of the Supervisory Board.

5.3 Observing relevant guidelines, the Supervisory Board may delegate to the Committees a resolution, to be taken by the Supervisory Board, on a sufficiently defined subject in the domain entrusted to the Committee concerned.

As soon as a Committee, on the basis of such delegation, has taken a resolution, its Chairman shall ensure that all members of the Supervisory Board are informed. The Supervisory Board may at all times revoke both its delegation resolution and the Committee's resolution taken on the basis of it, unless third parties' rights or justified interests prevent this.

5.4 The Committees are authorised to examine everything belonging to the field of operation of the Committee concerned. To this end, they are authorised to require all necessary information from the Chairman of the Executive Board and to seek external advice.

5.5 The Supervisory Board determines the composition of the Committees, according to the Regulations of the Committees.

- 5.6 The report of the Supervisory Board (annual report) shall state the number of meetings, the composition of the Committees as well as the main items discussed.

(Re)appointment, term and resignation

Article 6

- 6.1 In accordance with the Articles of Association, appointment of Supervisory Board members is done by the General Meeting from a non binding nomination, to be drawn up by the Supervisory Board for each appointment. When submitting such nominations, the Supervisory Board shall comply with the provisions of this article 6.
- 6.2 Yearly a retirement schedule will be drawn up by the Supervisory Board, in order to avoid, as far as possible, a situation in which many Supervisory Board members retire at the same time. The retirement schedule shall be publicly available and shall be posted on the Company's website.
- 6.3 A Supervisory Board member may hold a seat on the Supervisory Board for three four-year terms at maximum. This does not apply to members who are related by blood or marriage to Mr. A.H. Heineken , former chairman of the Executive Board, and members of the Board of Directors of Heineken Holding N.V.
- 6.4 A Supervisory Board member shall resign in the course of his term in the event of inadequate performance, structural incompatibility of interests or if the Supervisory Board feels that this is otherwise called for.
- 6.5 Persons reaching the age of 70 cannot be appointed as Supervisory Board members. A Supervisory Board member resigns at the first Annual General Meeting that is held after he has reached the age of 70. The Supervisory Board may decide for one or more Supervisory Board members that, and to what extent, the provisions of this paragraph are not applicable to them. The provisions of Article 10 section 3 of the Articles of Association shall apply correspondingly to the Supervisory Board decision referred to in the previous sentence.
- 6.6 A Supervisory Board member, who temporarily takes on the management, where the Executive Board members are absent or unable to discharge their duties, shall resign from the Supervisory Board.

Remuneration, loans and investing in shares

Article 7

- 7.1 The General Meeting shall determine the remuneration of the Supervisory Board members. The remuneration of a Supervisory Board member shall not be dependent on the results of the Company.

- 7.2 A Supervisory Board member may not be granted any shares and/or options on shares as a form of remuneration.
- 7.3 The Company may not grant its Supervisory Board members any personal loans, guarantees or the like unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval of the Supervisory Board. No remission of loans may be granted.
- 7.4 Any shares held by a Supervisory Board member in the Company are long-term investments.
- 7.5 The members of the Supervisory Board are bound by the Heineken N.V. Rules concerning Inside Information 2007 (as these may be amended or supplemented, concerning transactions in shares and other securities in the Company, Heineken Holding N.V. and other companies mentioned therein).

Induction programme and ongoing education and training

Article 8

After appointment, all Supervisory Board members shall follow an induction programme to be drawn up by the Company in consultation with the Chairman of the Supervisory Board. The programme shall, in any event, cover general financial, social and legal affairs, financial reporting by the Company, any specific aspects that are unique to the Company and its activities, and the responsibilities of a Supervisory Board member. The Supervisory Board shall conduct an annual review to identify any aspects with regard to which the Supervisory Board members require further training or education. The Company shall play a facilitating role in this respect.

Supervisory Board meetings (attendance, minutes, recurring subjects) and resolutions

Article 9

- 9.1 The Supervisory Board shall have at least six meetings with the Executive Board annually. The schedule of meetings is determined annually and in advance. Without prejudice to the foregoing, the Supervisory Board shall meet every time when required under the Articles of Association or these regulations, as well as every time when so requested by the Chairman, the delegated Supervisory Board member, two other Supervisory Board members or the Chairman of the Executive Board.

Supervisory Board members who are frequently absent shall be asked to explain their non-attendance. The report of the Supervisory Board in the annual report shall state which Supervisory Board members have been frequently absent from the Supervisory Board meetings.

- * The Supervisory Board considers an absence of two times per year as frequent.

- 9.2 The meetings shall generally be held at the offices of the Company, but may also take place elsewhere. In addition, meetings may be held by telephone or videoconference provided that all participants can hear each other simultaneously.
- 9.3 The Executive Board shall submit to the Supervisory Board for approval:
- a. the operational and financial objectives of the Company;
 - b. the strategy designed to achieve the objectives;
 - c. the parameters to be applied in relation to the strategy, for example in respect of the financial ratios;
 - d. corporate social responsibility issues that are relevant to the enterprise; and
 - e. all other proposals for approvals as arranged for in the Articles of Association and the document referred to as 'Application Article 8, section 6 of the Articles of Association'.
- 9.4 Annually, without prejudice to the above, the Executive Board shall provide the Supervisory Board at the latest in the month of December with a business plan, including a budget, an investment plan, a finance plan and a policy document on acquisitions and participations for the next year for discussion and approval.
- 9.5 The Supervisory Board shall discuss at least once a year, the corporate strategy and the main risks of the business, the result of the assessment by the Executive Board of the design and effectiveness of the internal risk management and control systems as well as any significant changes thereto. These discussions shall be referred to in the Supervisory Board's report in the annual report.
- 9.6 The Supervisory Board shall discuss, at least once a year on its own, i.e. without the Executive Board being present its own functioning, the functioning of the Committees and its individual members, and the conclusions that must be drawn on the basis thereof. The desired profile, composition and competence of the Supervisory Board shall also be discussed. Moreover the Supervisory Board shall discuss at least once a year without the Executive Board being present both the functioning of the Executive Board as an organ of the Company and the performance of its individual members and the conclusions that must be drawn on the basis thereof. The report of the Supervisory Board shall state how the evaluation of the functioning of the Supervisory Board, the separate committees and the individual Supervisory Board members has been carried out
- 9.7 If the Company, whether solicited or unsolicited, is subjected to a rating process by a rating agency, then the report of the agency concerned – if and insofar as available – shall be discussed by the Supervisory Board.

- 9.8 Any notice convening a Supervisory Board meeting shall be sent in writing, together with the agenda and other meeting documents, in principle seven days prior to the day of the meeting. In urgent cases, the Chairman may decide that the meeting shall be held earlier. Notice shall, in principle, be sent by the Company Secretary, in consultation with the Chairman.
- 9.9 The Supervisory Board meetings will in general be attended by the members of the Executive Board.
- 9.10 Prior to the notice convening the meeting, the Chairman shall, in principle, consult with the Chairman of the Executive Board about the contents of the agenda.
- 9.11 The meetings shall be presided over by the Chairman. In his absence, the Vice-Chairman shall preside over the meeting.
- 9.12 The Supervisory Board can only take valid resolutions in a meeting if the majority of the Supervisory Board members is present or represented at the meeting, with the proviso that members who have a conflict of interest as referred to in Article 10 shall not be taken into account when calculating this quorum.
- 9.13 Approval of a resolution by the Supervisory Board, as referred to in Article 8, section 6 under a), b) and c) of the Articles of Association, shall require a majority as referred to in Article 9.12, but this majority should in any case include the vote of the delegated member.
- 9.14 A Supervisory Board member may have himself represented by a co-member of the Supervisory Board by written proxy. A Supervisory Board member can act as proxy for no more than one co-member of the Supervisory Board.
- 9.15 The Supervisory Board may also adopt resolutions outside meetings in accordance with Articles 9.12 and 9.13, provided that none of the members of the Supervisory Board object to this manner of decision-making and subject to all members of the Supervisory Board responding in writing, this to include telefax and e-mail. A resolution passed in this manner shall be mentioned in the first subsequent meeting of the Supervisory Board.
- 9.16 Minutes shall be made of the subjects discussed at the Supervisory Board meeting. These minutes shall be adopted at the same or a subsequent Supervisory Board meeting, and signed by the Chairman in witness thereof.
- 9.17 The procedure and the decision-making by the Supervisory Board shall, furthermore, be subject to the relevant provisions of the Articles of Association.

Conflicts of interest

Article 10

- 10.1 Any conflict of interest or apparent conflict of interest between the Company and the Supervisory Board members shall be avoided. Decisions to enter into transactions under which Supervisory Board members would have conflicts of interest that are of material significance to the Company and/or to the relevant Supervisory Board members require the approval of the Supervisory Board.
- 10.2 A Supervisory Board member or an Executive Board member shall immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, to the Chairman of the Supervisory Board and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree as defined under Dutch law. If the Chairman of the Supervisory Board has a conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, he shall report this immediately to the Vice-Chairman of the Supervisory Board and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree as defined under Dutch law.
- 10.3 The Supervisory Board shall decide whether there is a conflict of interest. The Supervisory Board member concerned may not take part in the assessment by the Supervisory Board of whether a conflict of interest exists. The Executive Board member concerned shall not be present when the Supervisory Board decides whether there is a conflict of interest.
- A conflict of interest exists in any event if the Company intends to enter into a transaction with a legal entity:
- i. in which a Supervisory Board member or an Executive Board member personally has a material financial interest;
 - ii. which has an Executive Board member who is related under family law to a member of the Supervisory Board or an Executive Board member of the Company, or in which a member of the Supervisory Board of the Company has a management or
 - iii. supervisory position.
- 10.4 A Supervisory Board member or an Executive Board member may not take part in a discussion and/or decision-making on a subject or transaction in relation to which he has a conflict of interest with the Company.

- 10.5 All transactions in which there are conflicts of interest with Supervisory Board members or Executive Board members shall be agreed on terms that are customary in the sector concerned.
- Decisions to enter into transactions in which there are conflicts of interest with Supervisory Board members or Executive Board members that are of material significance to the Company and/or to the relevant Supervisory Board members or Executive Board members require the approval of the Supervisory Board. Such transactions shall be published in the annual report, together with a statement of the conflict of interest and a declaration that the best practice provisions III.6.1 to III.6.3 inclusive of the Dutch Corporate Governance Code have been complied with.
- 10.6 All transactions between the Company and legal or natural persons who hold at least ten percent of the shares in the Company shall be agreed on terms that are customary in the sector concerned. Decisions to enter into transactions with such persons that are of material significance to the Company and/or to such persons require the approval of the Supervisory Board. Such transactions shall be published in the annual report, together with a declaration that this article has been observed.

Whistleblowers

Article 11

Alleged irregularities concerning the functioning of Executive Board members shall be reported to the Chairman of the Supervisory Board. To this end the Executive Board shall draw up Regulations. The Regulation ensures that employees should have a possibility to report on alleged irregularities at the Company of a general, operational and financial nature within the Company to the Chairman of the Executive Board or to an official designated by him, without jeopardising their legal position.

The arrangements for whistleblowers shall be posted on the Company's website.

Information, relationship with the Executive Board

Article 12

- 12.1 The Supervisory Board and its individual members each have their own responsibility for obtaining all information from the Executive Board and the external auditor that the Supervisory Board needs in order to be able to carry out its duties as a supervisory organ. If the Supervisory Board considers it necessary it may obtain information from officers and external advisors of the Company. The Company shall provide the necessary means for this purpose. The Supervisory Board may require certain officers and external advisors attend its meetings.
- 12.2 The Executive Board shall timely provide the Supervisory Board with the necessary information, which the Supervisory Board may need to perform its duties.

- 12.3 At least once per year, the Executive Board will inform the Supervisory Board in writing about the main features of the corporate strategy, the general and financial risks and the risk management and control systems of the Company.
- 12.4 The Executive Board shall (at least) quarterly provide the Supervisory Board with a report prepared in a format as agreed from time to time and setting out detailed information on *inter alia* finance, marketing, investments and staff.
- 12.5 If a member of the Supervisory Board should receive information or indications relevant to the Supervisory Board in the proper performance of its supervisory and advisory duties (from a source other than the Executive Board or Supervisory Board), he shall make this information available to the Chairman as soon as possible. The Chairman shall subsequently inform the entire Supervisory Board.

Information, relationship with the shareholders

Article 13

- 13.1 A resolution for approval or authorisations to be passed by the general meeting shall be explained in writing. The explanation will include all facts and circumstances relevant to the approval or authorisation. The notes to the agenda shall be posted on the company's website.
- 13.2 If not prevented from attending for important reasons, the Supervisory Board members shall participate in the General Meeting. The Supervisory Board shall promote that also the members of the Executive Board participate in the General Meeting.
- 13.3 The Supervisory Board and the Executive Board shall provide the General Meeting with any information, unless an overriding interest (*zwaarwichtig belang*) of the Company or any law, rules or regulations applicable to the Company prevent it from doing so. The Supervisory Board and the Executive Board shall specify the reasons for invoking such overriding interest.
- 13.4 Resolutions on a major change in the identity or the character of the Company or its enterprise shall be subject to approval of the General Meeting of Shareholders.
- 13.5 The Supervisory Board shall monitor that the Executive Board complies with best practice provision II.1.9.

The external auditor

Article 14

- 14.1 The external auditor is appointed by the General Meeting. The Supervisory Board shall nominate a candidate for this appointment, while both the Audit Committee and the Executive Board advise the Supervisory Board. The remuneration of the external auditor, and instructions to the external auditor to provide non-audit services, shall be approved by the Supervisory Board on the recommendation of the Audit Committee and after consultation with the Executive Board.
- 14.2 The external auditor shall, in any event, attend the meeting of the Supervisory Board, at which the report of the external auditor regarding the audit of the financial statements will be discussed and the financial statements are to be adopted or approved. The external auditor shall report his findings in relation to the audit of the financial statements to the Executive Board and the Supervisory Board simultaneously.
- 14.3 The contacts between the Supervisory Board and the external auditor shall be channelled through the Chairman of the Audit Committee.
- 14.4 The Supervisory Board shall ensure that any recommendations made to the Company by the external auditor are actually observed by the Executive Board.
- 14.5 At least once every four years, the Executive Board and the Audit Committee shall conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment shall be communicated to the General Meeting for the purposes of assessing the nomination for the appointment of the external auditor.
- 14.6 The external auditor shall have a conflict of interest with the Company if:
- a. the independence of the external auditor with respect to its audit of the financial statements is compromised by the non-audit activities for the Company as regulated by the prevailing regulations on auditor independence, the Audit Committee pre-approval policy for external audit firm services and the engagement letter from the external auditor;
 - b. the responsible partner in the external auditors firm has been in charge of the audit activities for the Company for a longer period of time than as described in the prevailing regulations on auditor independence;
 - c. under applicable law, including the rules of any stock exchange on which the Company's shares (or depositary receipts thereof) may be listed, such conflicts of interests exists or is deemed to exist;
 - d. the Supervisory Board at his sole discretion has ruled that such conflict of interest exists or is deemed to exist.

14.7 Each member of the Supervisory Board and Executive Board, as well as the external auditor of the Company, shall immediately report any potential conflict concerning the external auditor to the Chairman. The external auditor of the Company, as well as each member of the Supervisory and Executive Board must provide all information relevant to the conflict of interests to the Chairman.

In all circumstances other than the ones listed under 14.6 c) and d), the Supervisory Board will determine whether a reported (potential) conflict of interest qualifies as a conflict of interest pursuant to which the appointment of the external auditor will have to be reconsidered or other measures must be taken to resolve it. The Chairman shall procure that those measures will be mentioned in the Company's annual report with reference to the conflict of interests and a declaration that this article 14.7 was complied with.

Corporate Governance

Article 15

15.1 The Executive Board and the Supervisory Board are responsible for the Corporate Governance structure of the Company and for compliance with the Dutch Corporate Governance Code.

They are accountable for this to the General Meeting and should provide sound reasons for any non-application of the provisions.

15.2 The broad outline of the Corporate Governance structure of the Company shall be explained in a separate chapter (or in a separate document referred to in the annual report) of the annual report, partly by reference to the principles mentioned in the Dutch Corporate Governance Code. In this chapter the Company shall indicate expressly to what extent it applies the best practice provisions in the Dutch Corporate Governance Code and, if it does not do so, why and to what extent it does not apply them.

15.3 Each substantial change in the Corporate Governance structure of the Company and in the compliance of the Company with the Dutch Corporate Governance Code shall be submitted to the General Meeting for discussion under a separate agenda item.

Confidentiality

Article 16

Supervisory Board members shall treat all information and documentation acquired within the framework of their position as Supervisory Board member with the necessary discretion and, in the case of classified information, with the appropriate secrecy. Classified information shall not be disclosed outside the Supervisory or Executive Board, made public or otherwise made available to third parties, even after resignation from the Supervisory Board, unless it has been made public by the Company or it has been established that the information is already in the public domain.

Non-compliance, amendment

Article 17

- 17.1 Without prejudice to the provisions of Articles 1.2 and 15, the Supervisory Board may occasionally decide at its sole discretion not to comply with and adhere to these Regulations pursuant to a Supervisory Board resolution to that effect.
- 17.2 Without prejudice to the provision of Articles 1.2 and 15, these Regulations may be amended by resolution of the Supervisory Board to that effect.

Other provisions

Article 18

- 18.1 These regulations have been adopted by the Supervisory Board in its meeting on 25 August 2009 and replace the previous regulations.

Amsterdam, August 2009

**REGULATIONS (Terms of Reference) PREPARATORY COMMITTEE
OF THE SUPERVISORY BOARD****General**

These regulations describe the role and the responsibility of the Preparatory Committee, its composition and the way in which it performs its duties. The regulations and the composition of the Preparatory Committee are posted on the company's website. The Supervisory Board's report in the annual report mentions the composition of the Preparatory Committee, the number of meetings as well as the most important subjects raised for discussion.

The members of the Preparatory Committee shall act in compliance with primary and secondary legislations, the Dutch Corporate Governance Code of December 2008, the Supervisory Board regulations and the Articles of Association.

Article 1 Composition

1. The Preparatory Committee ('the Committee') consists of at least three members, including the delegated member of the Supervisory Board if a delegated member has been appointed.
2. The Supervisory Board determines the composition of the Committee, duly observing paragraph 1. The Chairman of the Supervisory Board is also the Chairman of the Preparatory Committee.

Article 2 Tasks

1. The Committee's task is to prepare and, if necessary, to execute, resolutions to be adopted by and acts to be performed by the Supervisory Board on the domain entrusted to the Committee. The Supervisory Board remains responsible for the resolutions and acts, even if prepared or executed by the Committee. The domain entrusted to the Committee comprises of the following:
 - a. decisions concerning the approval required by Article 8, paragraph 6 of the Articles of Association for resolutions by the Executive Board pertaining to:
 - a). acquiring, alienating or encumbering participations in public companies ("naamloze vennootschappen") or other legal entities;
 - b). exercising voting rights for shares in public companies or other legal entities;
 - c). issuance of Shares and granting rights to subscribe for Shares, as well as restricting or excluding pre-emptive rights;
 - d). acquiring and alienation of own Shares or depositary receipts therefore;
 - e). contracting debenture loans;

- f. acts in law, such as entering into agreements by which the Company binds itself as guarantor and instituting legal proceedings, of which the interest for the Company amounts to more than five hundred thousand euro (EUR 500,000).
 - g. the distribution of interim dividends;
 - h. the operational and financial objectives of the Company;
 - i. the strategy which must bring about the realisation of the objectives;
 - j. preconditions which are observed for the strategy regarding for instance the financial ratios;
 - k. granting personal loans, guarantees and such like to the members of the Executive Board or members of the Supervisory Board;
 - l. transactions involving conflicts of interest of members of the Executive Board which are of material interest for the Company and/or for the member of the Executive Board concerned.
 - m. the granting of loans as referred to in article 4 paragraph 5 of the Articles of Association.
- b. supervision of the Executive Board as far as this is not a task of the Audit Committee, the Remuneration Committee or the Selection and Appointment Committee;
 - c. other activities assigned by the Supervisory Board.
2. Observing relevant guidelines, the Supervisory Board may delegate to the Committee a resolution, to be taken by the Supervisory Board, on a sufficiently defined subject in the domain entrusted to the Committee.
- As soon as the Committee, on the basis of such a delegation, has taken the resolution, its Chairman shall ensure that all members of the Supervisory Board are informed. The Supervisory Board may at all times revoke both the delegation and the Committee's resolution taken on the basis of it, unless third parties' rights or justified interests prevent this.
3. The Committee is entitled to investigate any matters belonging to the domain entrusted to the Committee. The Committee is authorised to require all necessary information from the Chairman of the Executive Board and to seek external advice.

Article 3 Meetings/resolutions

1. The Committee meets at least four times per year or more if requested by of one its members or the Chairman of the Executive Board.
2. The Committee will, in general, invite the Chairman of the Executive Board to attend its meetings. The Committee can request the Chairman of the Executive Board to be accompanied by other members of the Executive Board and/or directors or other employees of the company.

3. The Committee is supported by the Company Secretary, whose tasks shall include at least the following:
 - i. to timely convene the meetings;
 - ii. to send the members the agenda and the pertaining appendices, basically one week prior to the meeting;
 - iii. to take minutes of the meetings; the minutes are adopted at the next meeting;.
 - iv. to dispatch the draft minutes and/or the adopted minutes of the meeting to the members of both the Executive Board and the Supervisory Board (as soon as possible).
4. The Committee takes resolutions delegated to it by unanimous vote of the members present.
Legally valid resolutions can only be taken in a meeting attended by at least two Committee members.
This clause leaves unaffected the provisions of article 11, paragraph 9 of the company's Articles of Association concerning the required cooperation by the delegated member of the Supervisory Board.
5. Subject to written permission of all members of the Committee, the Committee may also take resolutions delegated to it without holding a meeting.
6. If it should appear that the Committee is unable to take a resolution delegated to it with the required unanimous vote or written approval, its Chairman shall immediately promote decision making by the Supervisory Board.

Article 4 Other provisions

1. These Regulations have been adopted by the Supervisory Board in its meeting on 25 August 2009 and will become applicable as per the same date.
2. These regulations are not applicable to the extent they conflict with the law or the company's Articles of Association.
3. These regulations replace the regulations adopted by the Supervisory Board in its meeting on 8-9 November 2004.

REGULATIONS (Terms of Reference) AMERICAS COMMITTEE OF THE SUPERVISORY BOARD

General

These regulations set forth the composition, attributions and rules of governance of the Americas Committee of the Supervisory Board of Heineken N.V. These regulations and the composition of the Americas Committee shall be posted on the company's website. The Supervisory Board's report in the Annual Report shall describe the composition of the Americas Committee, the number of meetings it held during the year as well as the principal subjects discussed.

The members of the Americas Committee shall act in compliance with the Dutch Corporate Governance Code of December 2008, the Supervisory Board regulations, the Articles of Association and all applicable laws.

As a Committee of the Supervisory Board, the Americas Committee shall act by delegation of the Supervisory Board with respect to the matters described below which are entrusted to the Committee. It shall recommend to the Supervisory Board such action as it deems appropriate. Any action taken by the Committee shall be deemed to constitute an act of the Supervisory Board.

Article 1 Composition

1. The Americas Committee ('the Committee') shall be composed of three members designated by the Supervisory Board from among its members.
2. The Committee shall be chaired by the 'First Fems H-Representative'.

Article 2 Oversight Responsibilities

1. The Committee shall exercise oversight responsibility over the following activities of the Executive Board as they relate to the Americas Region:
 - a. The overall strategic direction of the business of the Company, including as reflected in the preparation and execution of the Company's annual and pluri-annual business plans;
 - b. The periodic review and evaluation of the Company's financial and operating performance;
 - c. The periodic review and monitoring of the Company's organization and management, including transition and succession planning;
 - d. The review, evaluation and monitoring of growth and development opportunities of the Company, in particular strategic acquisitions and partnerships;
 - e. Such other matters concerning the Company's markets, business operations, business relations, governmental and public affairs as the Committee shall see fit and proper or as shall be referred by the Executive Board from time to time.
2. The Americas Committee shall periodically report on its activities, findings and recommendations to the Supervisory Board but in no event less frequently than every 6 months.
3. The Committee shall have the ability and power to seek information from management and independent auditors of the Company and its subsidiaries in respect of the matter as to which it has oversight as it deems necessary or desirable to perform its duties. Such requests shall be made to the Chairman of the Executive Board.

4. The out-of-pocket reasonable expenses of the Committee and its members incurred in connection with their activities shall be advanced or promptly reimbursed by the Company in accordance with its business expense guidelines and policies in effect from time to time.

Article 3 Meetings/ Resolutions

1. The Committee meets at least twice a year or more if requested by one of its members or the Chairman of the Executive Board. Meetings shall be held in Amsterdam, New York or any other place as deemed convenient by the members. The language of the meetings shall be in English, unless all members prefer another language. Minutes shall be drafted in the English language.
2. The Committee shall decide whether the Chairman of the Executive Board and the Regional President Americas attends.
3. The Committee takes decisions by unanimous vote of the members present. Valid decisions can only be taken in a meeting attended by at least two members of the Committee, one of them the Chairman.
4. Subject to written consent of all members of the Committee, the Committee may take decisions by unanimous written consent.
5. If it should appear that the Committee is unable to take a decision with the required unanimous vote or written approval, its Chairman shall inform the Supervisory Board.
6. The Committee is supported by the Company secretary, whose tasks shall include at least the following:
 - i. to timely convene the meetings;
 - ii. to send the members the agenda and the pertaining appendices, one week prior to the meeting;
 - iii. to take minutes of the meetings; the minutes are adopted at the next meeting;
 - iv. to dispatch the draft minutes and/or the adopted minutes of the meeting to the members of both Executive Board and the Supervisory Board (as soon as possible).

These regulations have been adopted by the Supervisory Board in its meeting on 22 February 2010 and are applicable as from the same date.

Schedule 9 – Further Information to be provided

For so long as the Femsa Parties or their Subsidiaries are the record and Beneficial Owners of an Economic Interest representing not less than 7% of HNV, Holding and HNV shall provide to the Femsa Parties (at the sole cost and expense of Femsa) such information relating to HNV, Holding and such number of the Subsidiaries of HNV and Holding as is required for the Femsa Parties to obtain a tax credit under Mexican tax law in an amount equal to the lesser of (a) the amount necessary to offset the Femsa Parties' Mexican tax liability on the dividends received from HNV and Holding, and (b) 30% of the Femsa Parties' direct and indirect share of all taxes of HNV and its Subsidiaries for any financial year; provided that, in relation to any extraordinary dividend (being any one-off dividend paid in addition to HNV's or Holding's ordinary course dividends) HNV and/or Holding will, if requested by Femsa, use its reasonable efforts to provide the Femsa Parties (at the sole cost and expense of Femsa) with such additional information to offset the Femsa Parties' Mexican tax liability on such extraordinary dividend. The Femsa Parties' share of all taxes of HNV and its Subsidiaries shall be based on the Femsa Parties' direct and indirect ownership of the entity paying such taxes. The information to be reasonably requested from HNV and Holding may include the following:

1. Documentation setting forth dividends distributed and received by Holding, HNV and their Subsidiaries, including any income tax withheld from such dividend distributions and the corporate income tax paid corresponding to the profits that were distributed, but only to the extent such distributions, amounts withheld, and taxes paid will permit the Femsa Parties to claim a tax credit under Mexican tax law with respect to the dividends paid to the Femsa Parties by Holding and HNV.

2. Documentation that sets forth the direct and indirect ownership of HNV in the stock of the entities whose tax payments are relevant to the tax credits claimed.

3. Copies of the annual income tax returns of the entities whose tax payments are relevant to the tax credits claimed for the tax years in which the relevant dividends are distributed.

4. Financial documentation (e.g., bank account statements, wire transfers confirmations, deposit slips) showing the payment of the income tax for which a tax credit is being sought.

5. If applicable, copies of certificates of income tax withholdings of any dividend payments.

6. Copies of shareholders meeting minutes or other documents under applicable law establishing that the relevant dividends have been approved.

Holding and HNV shall take such actions as may be reasonably requested by the Femsa Parties (but at the sole cost and expense of Femsa) to authenticate or certify any such documents.

FORM OF JOINDER TO CORPORATE GOVERNANCE AGREEMENT

Reference is hereby made to the Corporate Governance Agreement, dated [30 April, 2010], (the “CGA”) by and between Heineken Holding N.V., a public company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, Heineken N.V., a public company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, L’Arche Green N.V., a public company (*naamloze vennootschap*) incorporated under the laws of the Netherlands, CB Equity LLP, a legal entity incorporated under the laws of the United Kingdom and Fomento Económico Mexicano, S.A.B. de C.V., a legal entity incorporated under the laws of Mexico. Capitalized terms used herein but not otherwise defined shall have the meanings set forth in the CGA.

The undersigned is, or desires to become, a member of the H-Supervisory Board and therefore agrees as follows:

1. Agreement to be Bound. Pursuant to and as required by Clause 2.10 of the CGA (and Clause 2.5(e) or Clause 2.6(c) of the CGA, as applicable), the undersigned hereby agrees that upon execution of this joinder, he or she shall become bound by the provisions of the CGA and that he or she shall fulfill his or her duties and exercise his or her rights in accordance with the provisions of the CGA and that he or she shall act in a manner consistent with, and as required to give effect to, the provisions of the CGA.
2. Governing Law. This joinder and any rights and obligations created hereunder shall be governed by and interpreted exclusively in accordance with the laws of the Netherlands.

IN WITNESS WHEREOF, the undersigned has executed this joinder as of the date indicated below.

MEMBER OF H-SUPERVISORY BOARD

By: _____

Name:

Date:

Significant Subsidiaries

The following table sets forth our significant subsidiaries as of February 29, 2012:

<u>Name of Company</u>	<u>Jurisdiction of Establishment</u>	<u>Percentage Owned</u>
CIBSA	Mexico	100.0%
Coca-Cola FEMSA⁽¹⁾	Mexico	50.0%
Propimex, S. de R.L. de C.V. (a limited liability company; formerly Propimex, S.A. de C.V.)	Mexico	50.0%
Controladora Interamericana de Bebidas, S.A. de C.V.	Mexico	50.0%
Coca-Cola FEMSA de Venezuela, S.A. (formerly Panamco Venezuela, S.A. de C.V.)	Venezuela	50.0%
Spal Industria Brasileira de Bebidas, S.A.	Brazil	48.9%
FEMSA Comercio	Mexico	100.0%
CB Equity	United Kingdom	100.0%

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

Certification

I, José Antonio Fernández Carbajal, certify that:

1. I have reviewed this annual report on Form 20-F of Fomento Económico Mexicano, S.A.B de C.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results from operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2012

/s/ José Antonio Fernández Carbajal

José Antonio Fernández Carbajal

Chief Executive Officer

Certification

I, Javier Astaburuaga Sanjines, certify that:

1. I have reviewed this annual report on Form 20-F of Fomento Económico Mexicano, S.A.B. de C.V.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results from operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 27, 2012

/s/ Javier Astaburuaga Sanjines

Javier Astaburuaga Sanjines

Chief Financial Officer

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Fomento Económico Mexicano, S.A.B de C.V. (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on form 20-F for the year ended December 31, 2011 (the "Form 20-F") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 20-F fairly presents, in all material respects, the financial condition and results from operations of the Company.

Date: April 27, 2012

/s/ José Antonio Fernández Carbajal

José Antonio Fernández Carbajal
Chief Executive Officer

Date: April 27, 2012

/s/ Javier Astaburuaga Sanjines

Javier Astaburuaga Sanjines
Chief Financial Officer