LEADERSHIP DEFINED

FEMSA

2004 Annual Report

STRONG BRAND PORTFOLIO

OUTSTANDING SKILLS TO COMPETE

PROVIDING CONSUMER SATISFACTION

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AS THE LARGEST INTEGRATED BEVERAGE COMPANY IN LATIN AMERICA, OUR AIM IS PRECISION—THE RIGHT PRODUCT, IN THE RIGHT PRESENTATION, AT THE RIGHT PRICE FOR ANY CONSUMER OCCASION.

Leadership Defined Through Precision

For us, this word underlies the focus, the execution, and the attention to detail that have helped make FEMSA the largest integrated beverage company in Latin America. It also serves as the lynchpin of an organizational structure, culture, and strategy committed to producing profitable growth over the short and long term. As you can see from our 2004 performance, our precision is paying off.

We achieved these positive results by leveraging our integrated beverage value chain and our pre-eminent industry position to compete successfully in challenging environments. We capitalized on our businesses' disciplined execution to serve consumers' distinctive needs across our diverse markets and regions. We also managed our extensive portfolio of brands and presentations to offer what our competitors cannot: the right brand, in the right package, at the right price for almost any consumer occasion.

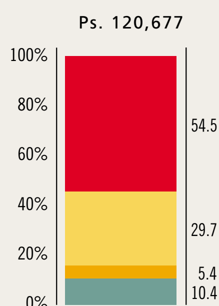
We have gained these advantages by transforming our company from the inside out. Over the past few years, we have fundamentally changed how we operate, how we compete, and how we go to market—all without sacrificing our brands' equity and profitability. Now, we are poised—as never before—to capitalize on our businesses' growth potential and translate it into even greater value for our shareholders, our employees, and our communities. Looking forward, our goal is to continue to balance our profitability and market growth and to elevate the value of our industry.

FINANCIAL HIGHLIGHTS

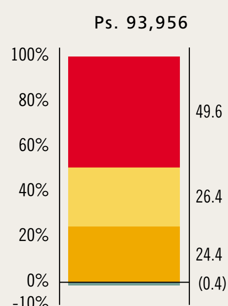
(Millions of 2004 Pesos)	(Millions of US Dollars) **2004**[1]	**2004**	2003	% Change	2002	% Change
Total revenues	**$ 8,430**	**Ps. 93,956**	Ps. 80,154	17.2	Ps. 57,997	38.2
Income from operations	**1,233**	**13,738**	12,640	8.7	10,200	23.9
Net income	**830**	**9,249**	4,925	87.8	5,040	(2.3)
Net majority income	**523**	**5,831**	3,302	76.6	3,100	6.5
Net minority income	**307**	**3,418**	1,623	110.6	1,940	(16.3)
Total assets	**10,827**	**120,677**	111,653	8.1	65,875	69.5
Total liabilities	**6,158**	**68,632**	62,981	9.0	29,822	111.2
Stockholders' equity	**4,669**	**52,045**	48,672	6.9	36,053	35.0
Capital expenditures	**619**	**6,902**	7,139	(3.3)	6,077	17.5
Book value per share[2]	**0.598**	**6.668**	5.677	17.5	4.768	19.1
Net income per share[2]	**0.099**	**1.101**	0.624	76.4	0.585	6.7
Personnel		**88,217**	86,136	2.4	41,686	106.6

(1) Exchange rate: 11.146 pesos/US dollar as of December 31, 2004.
(2) Data in Mexican pesos, based on 5,297,310,450 outstanding shares.

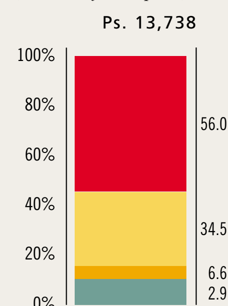
TOTAL ASSETS
(millions of 2004 pesos)



TOTAL REVENUES
(millions of 2004 pesos)

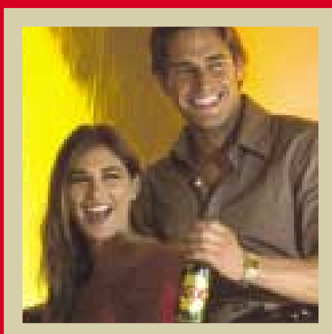


INCOME FROM OPERATIONS
(millions of 2004 pesos)

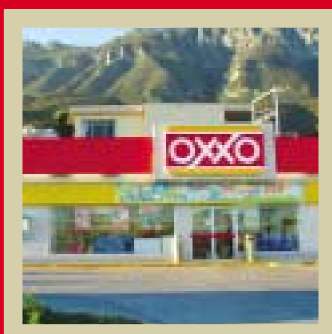


Coca-Cola FEMSA | FEMSA Cerveza | FEMSA Comercio | Other Businesses

Soft drinks successfully consolidated its position in 9 countries.



We repurchased 30% of our brewing operations.



We opened 668 new Oxxo stores in 2004.

LETTER TO OUR SHAREHOLDERS

José Antonio Fernández Carbajal
Chairman of the Board and Chief Executive Officer

Dear Shareholder,

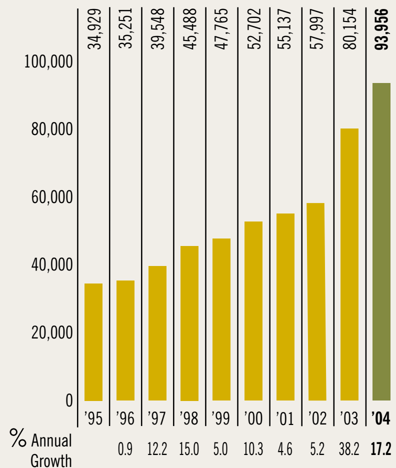
2004 was a year of multiple milestones for our company. Most importantly, we continued to deliver on our promise to produce consistently profitable growth—bolstering our position as one of the world's top integrated beverage companies. Over the last 10 years, our total revenue, operating income, and operating cash flow (EBITDA) have grown in dollar terms at compounded annual rates of 16.3%, 19.5%, and 19.4%, respectively.

For 2004, our total revenue grew to Ps. 94.0 billion (US$8.4 billion), a gain of 17.2% from last year. Our operating income rose to Ps. 13.7 billion (US$1.2 billion), up 8.7%. Our net income improved to Ps. 9.249 billion (US$830 million), a gain of 87.8% compared with 2003, resulting in earnings per share of Ps. 1.101. And our return on invested capital was 9.8%, compared with 9.4% in 2003.

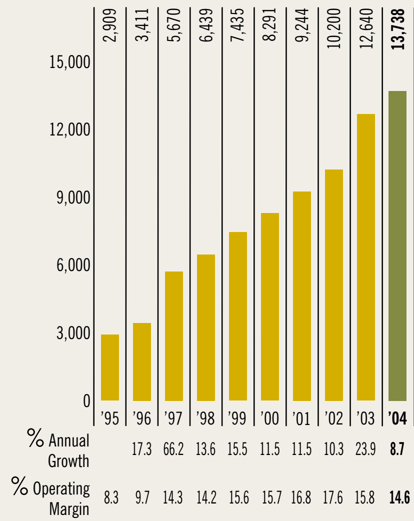
In less than two years, Coca-Cola FEMSA completed the integration of eight new territories and consolidated its position in nine countries across North, Central, and South America, despite their distinct and sometimes complex market environments. Consequently, we are successfully changing the way we go to market in our new franchise territories. For example, our revenue-management strategy is clearly on track in Brazil. There, we have transformed our package, price, and point-of-sale execution relative to where we were only 18 months ago. In São Paulo alone, we are now selling 11 different SKUs of brand Coca-Cola pursuant to a clear price-package-channel strategy. As a result of our efforts, we are well-positioned to enhance our competitive position throughout our market territories.

In Mexico, Coca-Cola FEMSA's largest market, we are gradually recovering our quarterly profitability. To date, we have achieved important synergies across the value chain, which have enabled us to partially offset significant increases in raw-material costs and a more complex competitive environment. Additionally, our diverse portfolio of single and multi-serve presentations, combined with our concerted focus on effective strategies at the point of sale, are enabling us to sustain our market position as one of the most profitable soft-drink franchises in the world.

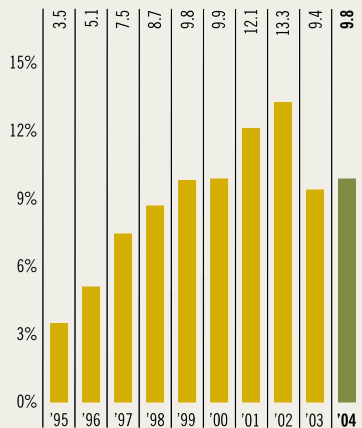
TOTAL REVENUES
(millions of 2004 pesos)



OPERATING INCOME
(millions of 2004 pesos)

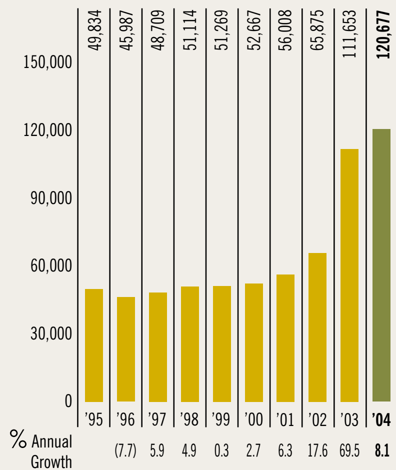


ROIC*



*Based on EVA® methodology as per Stern, Stewart & Co. and using figures adjusted for inflation from each of the countries where we operate.

TOTAL ASSETS
(millions of 2004 pesos)



We are very proud of the advances that Coca-Cola FEMSA achieved in such a short period. The smooth integration and consolidation of eight franchise territories—located in eight countries with very diverse macroeconomic environments and market dynamics —is an amazing accomplishment.

With our repurchase of 30% of FEMSA Cerveza's capital, we begin an exciting new chapter for our company. This transaction gives us 100% ownership of our beer operations, provides us with maneuvering flexibility, and lays the foundation for a new stage of growth in our exports particularly to the United States. As we previously announced on January 1, 2005, we started marketing and distributing our brands through the powerful commercial platform of Heineken USA.

We now have the flexibility to select the ideal commercial partner for each business opportunity. Heineken offers quality growth possibilities for our flagship brands in the US rapidly growing market for imported beers, while the agreement with Coors Brewing Co. to sell and distribute Coors Light will help us to capture share of Mexico's imported beer segment.

During the year, we made great strides with FEMSA Cerveza's business model. Through our differentiated brand management and segmented market execution strategy, we aim to stimulate and satisfy consumers' thirst on almost any occasion by offering them the right product, presentation, and price at the right point in their lives.

As evidenced by our profitable market growth, we have also advanced considerably on the capabilities required to execute FEMSA Cerveza's business model. We made further progress in the deployment of our new ERP-based business architecture. For example, by year-end, we sold 86% of our direct sales volume through our pre-sale process and 79% of our direct sales volume through our new business system. Thanks to these and other initiatives, we were able to gain market share and achieve a return on invested capital of more than 11.1%, despite lower real prices, higher raw-material costs, and aggressive competition.

Looking forward, we will continue to manage our company with a view for the long-term. We are unwilling to sacrifice our long-term goals for short-term market share gains. To the contrary, we will continue to balance our profitability, our brands' equity, and our market growth while working to preserve and enhance the value of our industry.

Finally, our retail operations produced top-line growth of more than 24% for the third consecutive year. Approximately one third of this growth came from same-store sales, and two thirds came from our successful expansion; we opened 668 new stores in 2004.

Today Oxxo is the largest and most profitable convenience-store chain in Latin America. Importantly, it is the largest nationwide seller of Coca-Cola and beer in Mexico. Indeed, it is now FEMSA Cerveza's top customer, buying approximately 7% of our beer volume in 2004.

Our consistently successful growth of Oxxo's sales exemplifies our operations' alignment. Because Oxxo is a member of our corporate family, our beer marketers can work together with Oxxo to select new sites that either penetrate challenging domestic beer markets or

We continued to deliver strong results, as evidenced by an 88% increase in our consolidated net income.

consolidate our position in others. Informed site selection, however, is only part of the story. Close coordination between Oxxo's beverage category managers and our beer and soft-drink marketers enables us to hone our various promotional activities to stimulate and satisfy consumer demand. Through this interaction, we can share our knowledge of consumers' purchasing patterns and preferences and continually improve our brand's equity, our commercial strategies, and execution at the point of sale.

We also are making considerable progress on several related initiatives designed to realize significant cost savings and synergies from the strategic integration of our common corporate processes, including procurement, human resources, administration, information systems, and logistics. In 2004 we significantly enhanced the services provided by our logistics area and laid the foundation for shared back-office service centers for our whole organization.

Our historical performance has shown that we can successfully grow our businesses in even the most adverse conditions. Once again, we thank you for your continued support, and we welcome your participation in our journey.

FEMSA's strong operating and financial performance exemplifies the advantages of our company, including our ability to compete in challenging environments; our precise execution at the point of sale; and our effective portfolio management. Our results further underscore the compelling logic of our integrated beverage platform.

On a sad note, in 2004 we mourned the passing of Alfredo Martínez-Urdal, deputy CEO of FEMSA. Alfredo was instrumental in guiding and shaping our company as we know it today. Thanks to his visionary leadership, Coca-Cola FEMSA became the Coca-Cola system's most profitable bottler in the 1990s, setting the foundations for future growth. And over the last few years, Alfredo led an even more ambitious transformation at FEMSA Cerveza, introducing new ways to approach a century-old business. Perhaps most importantly, Alfredo was an outstanding mentor, who taught us well. His absence was felt across our organization.

On behalf of the more than 88,000 men and women across FEMSA, I thank you for your continued support during my 10 years as CEO. We greatly value the trust you place in our ability to achieve our objectives, and we welcome the opportunity to continue producing attractive returns for you now and into the future.

JOSÉ ANTONIO FERNÁNDEZ CARBAJAL

Chairman of the Board and Chief Executive Officer

NUEVA SOL
Coca-Cola light
Sol
Sol

COCA-COLA FEMSA

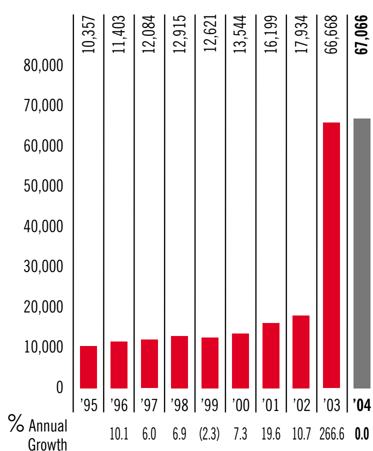
PRECISION

INTEGRATION

EXECUTION

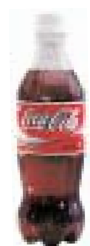
COORDINATION

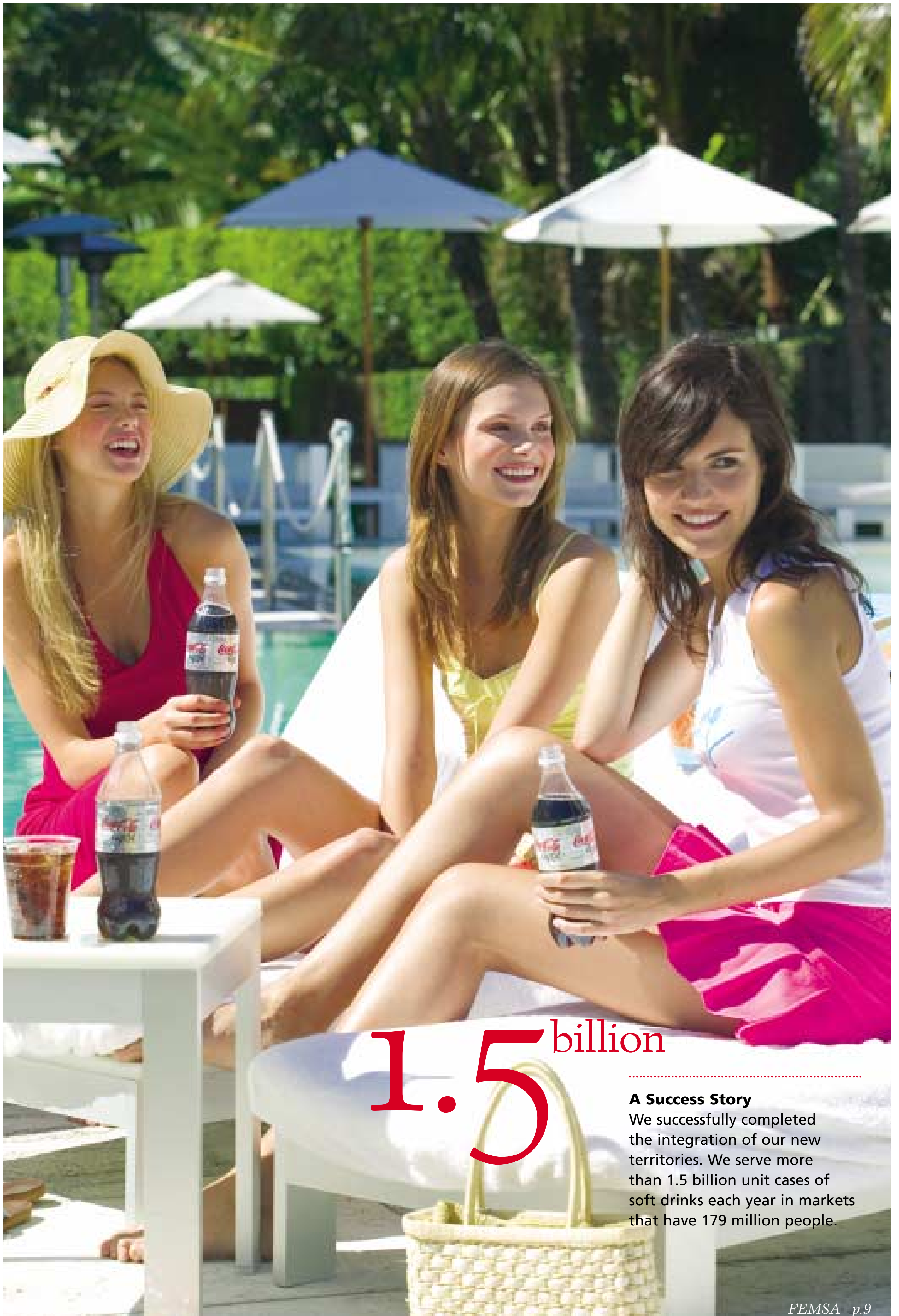
TOTAL ASSETS
(millions of 2004 pesos)



In 2004 Coca-Cola FEMSA completed the integration of eight new franchise territories and consolidated its position in nine different countries across North, Central, and South America. Consequently, we are successfully changing the way we go to market in our new territories. In Brazil, Colombia, and Venezuela, we are increasing our sales, serving a more stable base of retailers—our traditional direct-sales channel—and reducing our dependence on indirect-sales channels, such as third-party wholesalers and distributors. As a result, we are getting closer to our consumers, strengthening our knowledge of local preferences and practices, and improving our market coverage and penetration.

In Central America, we continued to expand our proven pre-sale system throughout our regional operations. By dividing the sales and delivery functions, this system enables our sales force to sell our products before delivery, offer merchandizing support during their retailer visits, and enhance our products' presentation at the point of sale. It also permits us to load our delivery trucks with the precise mix of products that our retailers order and increase our distribution efficiency.



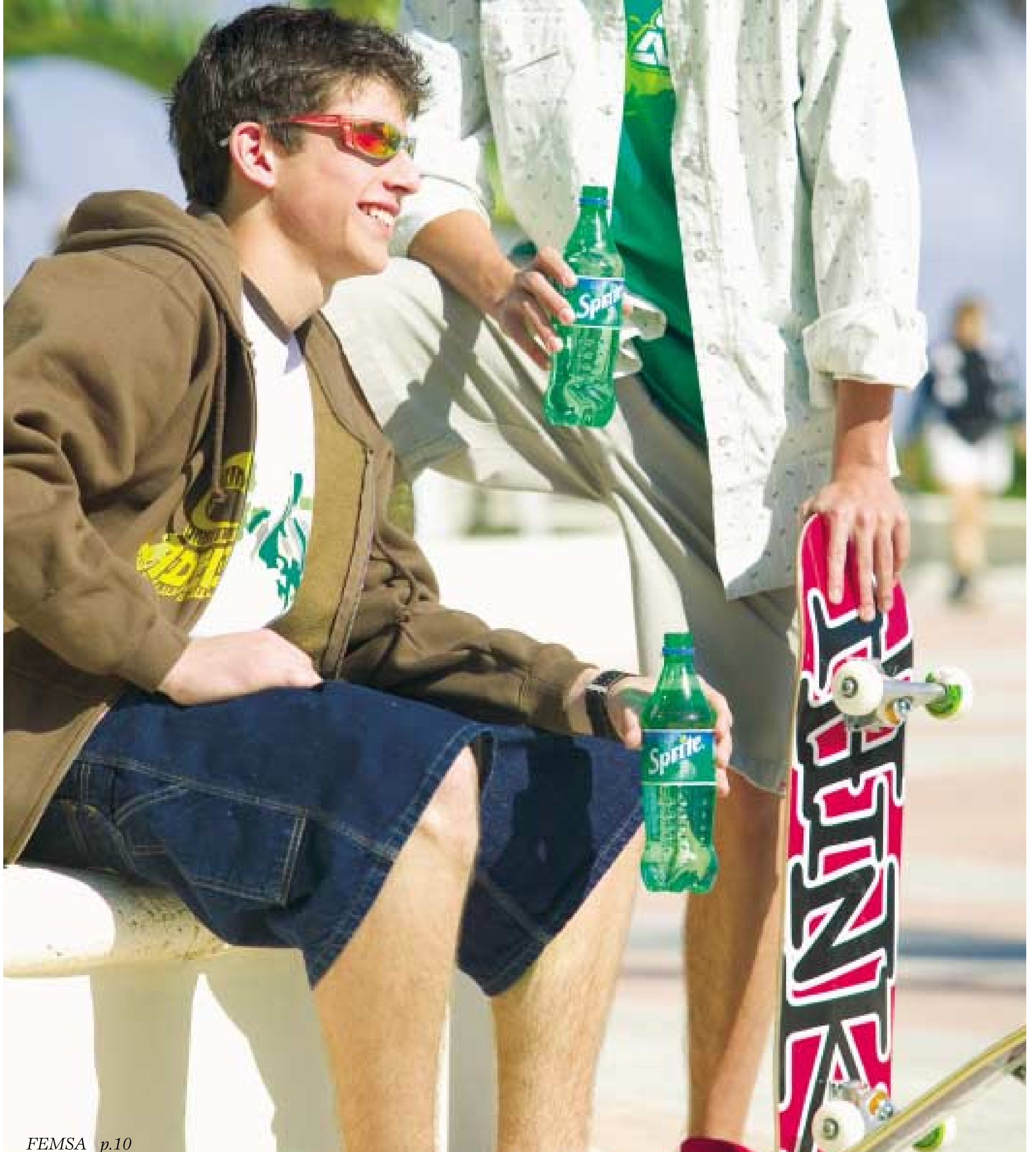


1.5 billion

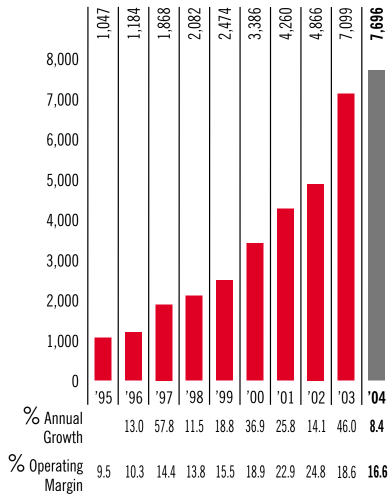
A Success Story
We successfully completed the integration of our new territories. We serve more than 1.5 billion unit cases of soft drinks each year in markets that have 179 million people.

51%

A Success Story
Over the past two years, we have successfully changed the way we go to market in our new territories. In Brazil alone, we have increased our sales through the traditional retailer channel from 36% to 51% of our volume.



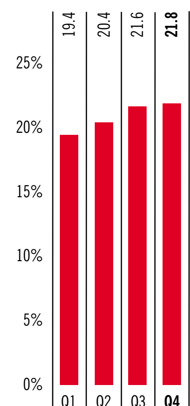
OPERATING INCOME
(millions of 2004 pesos)



At the end of 2004, we had trained almost 100% of our pre-sellers and sold more than 70% of our Central American sales volume through our pre-sale system.

Thanks to our efforts, we are well-situated to enhance our competitive position throughout our franchise territories. In Argentina, our disciplined strategic execution is enabling us to achieve record levels of profitability and balanced growth across our beverage categories. Our multi-segmentation strategy is allowing us to capitalize on the country's improving economic environment to drive consumption of our popular Coca-Cola trademark beverages, optimize our market coverage, and reach new customers through our targeted use of returnable and nonreturnable presentations.

OPERATING MARGIN IN MEXICO 2004



We are also able to compete effectively in challenging market environments. In Mexico—one of the world's largest soft-drink markets—we are maintaining our leadership position and gradually improving our profitability, despite significant cost and competitive pressures. Through the integration process, we realized important procurement and manufacturing synergies, which allowed us to offset higher raw-material costs and confront a more complex competitive environment. Also, our effective portfolio management and focus on execution at the point of sale enabled us to stabilize our soft-drink revenues and improve our operating margin during the year.

Moving ahead, we will continue to work closely with The Coca-Cola Company to leverage our knowledge of local market dynamics and to develop the precise portfolio of products and packages that satisfies our consumers on any occasion.

FEMSA CERVEZA

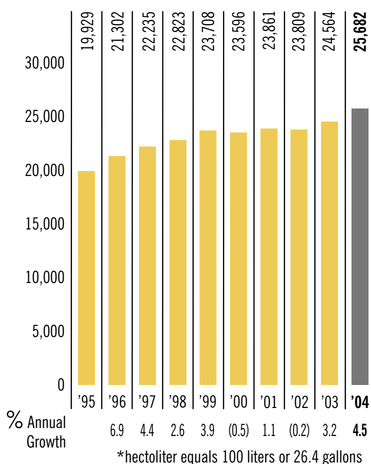
PRECISION

DIFFERENTIATION

SEGMENTATION

SATISFACTION

TOTAL VOLUME
(millions of hectoliters)*



For FEMSA Cerveza, precision means powerful brands targeted to fulfill the different preferences of the consumers we serve. With our portfolio of 16 high-quality beer brands—innovatively packaged and promoted to entice consumers at the point of sale—we generated profitable market growth in the face of aggressive competition, high commodity costs, and lower real prices.

In 2004 we made great strides in our pursuit of profitable volume growth, while creating value for the overall Mexican beer industry. Our positive performance stemmed from our transformed business model—which is designed to offer consumers the right brand, in the right package, at the right price for any occasion.

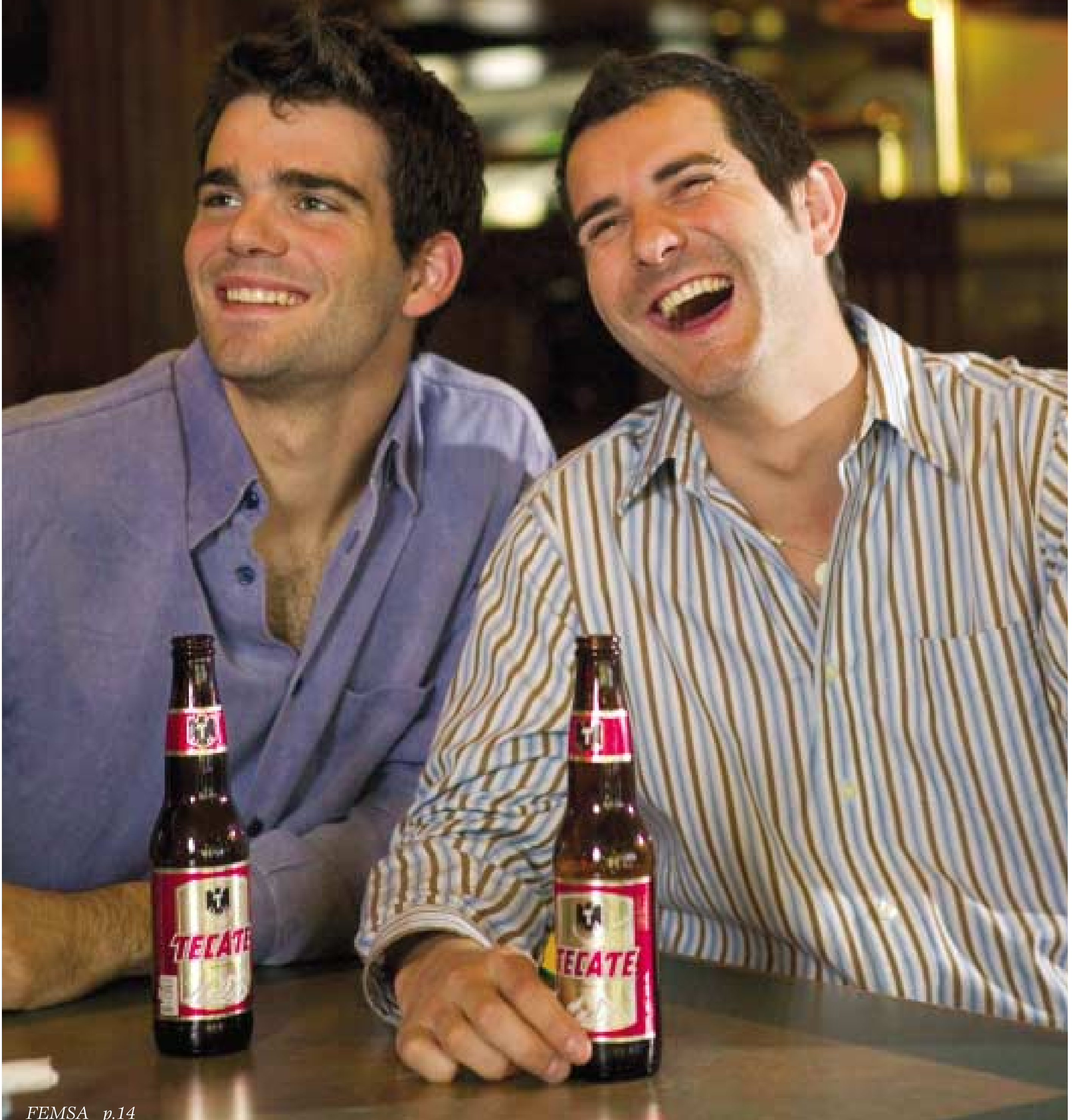
We considerably advanced the deployment of our brand-differentiation strategy and laid the foundation for our revenue-management capabilities. At the start of 2004, we successfully began to implement a new differentiated pricing architecture for our brands. And, over the course of the year, on a product-market basis, we increased 25% the number of SKUs—including our unique, upsized 40-ounce returnable presentation of Sol Brava, a richer, less-filling brew, our 12-, 18-, and 24-unit multi-packs, and our returnable 12-ounce bottle of Tecate Light, the number one light beer in Mexico, as well as customized SKUs for specific consumption occasions like Carnival and local fairs. All of these launches fit well within our strategy of building a complete and differentiated brand portfolio that leverages our brands'

25%

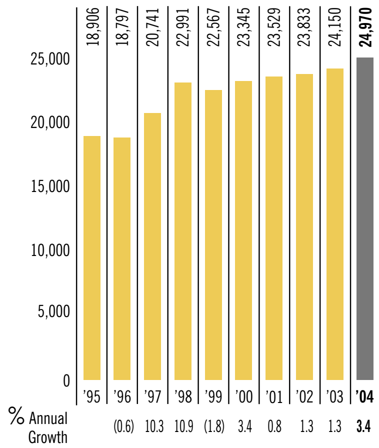
Profitable Innovation
The increase of 25% in the number of SKUs in 2004 underscores our proactive ability to compete successfully in an evolving industry environment.

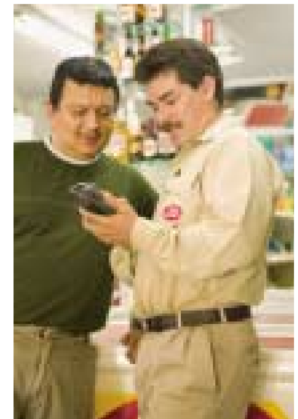
79%

Precision
We have advanced considerably on the capabilities required to execute our business model. By year-end 2004, we sold 79% of our direct sales volume through our new systems architecture.



TOTAL REVENUES
(millions of 2004 pesos)





equity and profitability. We successfully expanded our entire portfolio and, once again, made Sol the fastest-growing established brand in Mexico for the third straight year.

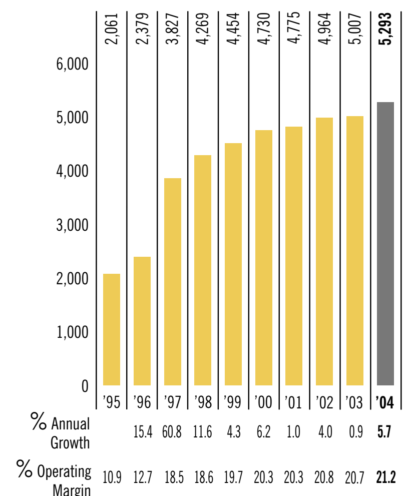
We also made tremendous progress on our market-segmentation strategy. Consequently, we could better segment our markets, conduct more detailed analyses of consumers' different purchasing patterns and preferences, and develop more specialized ways to promote our brands for each channel, location, or consumption occasion. Additionally, we were able to respond to competitive initiatives with channel and brand-specific answers—as opposed to market-wide responses.

We further maximized our maneuvering flexibility. In August, FEMSA completed the purchase of 30% of FEMSA Cerveza and recovered the rights to market and distribute our beer brands in the United States. Beginning January 1, 2005, Heineken USA became the sole importer, marketer, and distributor of our beers in the United States. Heineken brings a formidable commercial platform to our relationship, together with a strong, highly complementary portfolio and geographic footprint. At the same time, we signed a long-term agreement with Coors Brewing Co., through which we became the sole importer and distributor of their very popular Coors Light brand in Mexico; this will allow us to offer a product in the import category at the super-premium price point.

In concert, these developments should better enable us to capitalize on favorable long-term market dynamics—including Mexico's compelling demographics and potential for higher consumption per capita, and US consumers' growing demand for imported beer—and thus satisfy consumers' thirst across these two key markets.

In 2004 we obtained significant results from our wide and deep transformation of FEMSA Cerveza. Our commitment to renew our company required alignment from the top levels of our organization to our sales force across the country; it required passion, creativity, discipline, and innovation. We praise our people's drive and dedication, and we are confident and prepared to face a more competitive environment.

OPERATING INCOME *(before management fee)*
(millions of 2004 pesos)



FEMSA COMERCIO

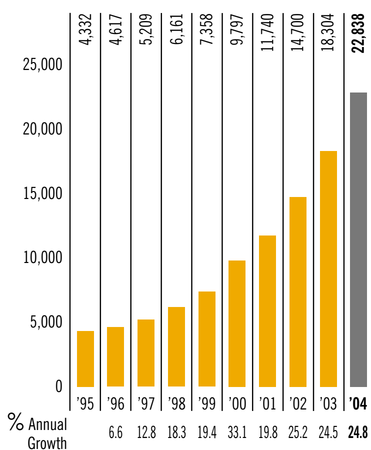
PRECISION

EXPANSION

LOCATION

PENETRATION

TOTAL REVENUES
(millions of 2004 pesos)



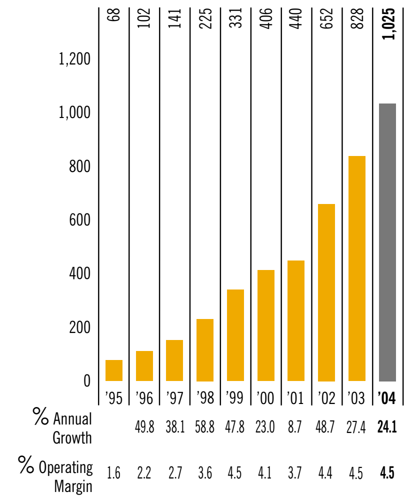
Few retailers have put the principle of precision into action as successfully as Oxxo. The largest vendor of beer, Coca-Cola products, and soft drinks in all of Mexico—and the largest convenience-store chain of its kind in Latin America—Oxxo again grew its revenue by more than 24% in 2004. Two thirds of this growth came from expansion—we opened 668 new stores in 2004 alone—and approximately one third of this growth came from same-store sales.

For Oxxo, precision begins with prime locations. We combine our centralized performance metrics with our local knowledge of consumer practices and preferences to pinpoint sites that offer high potential growth. From these sites, we do more than just sell products; we become part of our customers' lifestyles. We tailor our merchandise and marketing to suit their needs, and we offer them convenient services—such as the ability to pay their utility bills directly at our stores, while picking up food or a cup of freshly brewed coffee on the go.

We not only deliver value to our customers, but also to FEMSA as a whole. We are a powerful distribution channel for numerous consumer products and function as a

668

A Profitable Growth Story
With more than US$2 billion in sales, 24% top-line growth, and stable margins, we are on track to further expand our coverage and deepen FEMSA's market penetration. In 2004 we opened 668 new stores, bringing our total to 3,466 stores nationwide.



strategic extension of our company's soft-drink and beer operations. We are the largest client of The Coca-Cola Company in Mexico and one of its top clients in Latin America. Moreover, we are FEMSA Cerveza's single-largest customer—purchasing approximately 7% of the brewery's volume in 2004. Our beer marketers can work together with Oxxo to select new sites that either penetrate challenging domestic beer markets or consolidate our position in others.

We also offer valuable consumer intelligence, as well as a test platform for new products and presentations across our markets. Thanks to our unique synergy, we are precisely positioned to fuel our company's growth for years to come.

With more than US$2 billion in sales, 24% top-line growth, and stable margins—despite investments in point-of-sale technology and front-line personnel training—we are on track to further expand Oxxo's market coverage and deepen FEMSA's market penetration. In the process, we aim to make Oxxo synonymous with the consumers' ideal of the service and satisfaction they can expect from a modern convenience store.

A LEGACY OF CORPORATE CITIZENSHIP

ENDURING VALUE-CREATION

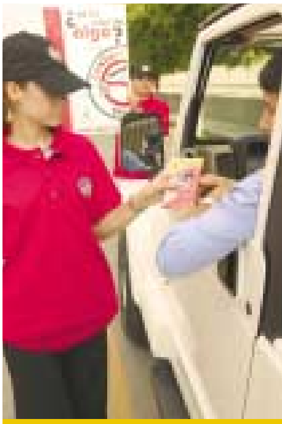
SUSTAINABLE DEVELOPMENT

Our commitment to social responsibility is an integral part of our corporate culture—founded on the values we embraced more than a century ago. Our social performance is a clear reflection of our quality of life, our high standards of ethics and corporate governance, our relationship with our communities, and our care for—and preservation of—the environment.

QUALITY OF LIFE

This is the cornerstone of our socially responsible culture; it is vital for the successful development of our employees and their families, our organization, and our society. Our programs to foster a good quality of life include Sociedad Cuauhtémoc y Famosa (SCyF), the Labor Integration Program for People with Disabilities, and Clínica Cuauhtémoc y Famosa (CCyF).

Created in 1918 to promote the integral development of our people and their families, SCyF's 78 associations and 10 recreational centers are based on six principles—hard work, savings, equality, democracy, unity, and freedom. As its name



suggests, our labor integration program promotes equal growth and development opportunities for people with disabilities. In recognition of our efforts, in 2004 we received the Inclusive Company award from Mexico's Secretary of Labor. Likewise, in 2004 CCyF—a nonprofit hospital for our employees and their families—won the National Quality Award from Mexico's Secretary of Economy.

ETHICS AND CORPORATE GOVERNANCE

Our Code of Ethics outlines the conduct that all of our employees and Board members must follow—inside and outside of our company. Our corporate decisions and actions are premised on good corporate governance; we look to offer financial transparency, provide public access to information, and establish equal relationships with each of our investors.

COMMUNITY RELATIONSHIPS

Our history is tied to our support and creation of philanthropic, educational, cultural, and social institutions that have greatly impacted Mexico's development. Since 1910, we have founded schools and technical institutions to train our employees and educate their children. In 1943 the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) was founded under the leadership of Don Eugenio Garza Sada, former CEO of Cervecería Cuauhtémoc. Today, ITESM is one of the most important private universities in Latin America, and we remain one of this institution's most committed sponsors.

Responsible Lifestyle

In 2002 FEMSA Cerveza created the Responsible Lifestyle Workshop (VIRE) to raise awareness among teenagers of the importance of responsible decision-making. Concurrently, we started a program that offers a series of activities, including lectures at schools and universities, open forums, press conferences, and visits to state authorities that allow the public to explore and develop four core attributes: talent, effort, discipline, and character. Moreover, over a decade ago, we were the first Mexican company to promote the Designated Driver program, which has since been implemented in 125 universities across Mexico.

Community Achievement

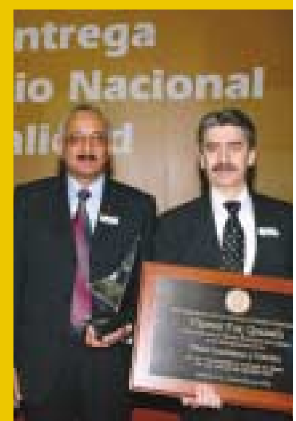
Established in 1993, the Eugenio Garza Sada Award recognizes individuals and institutions whose actions reflect the values that distinguished Don Eugenio Garza Sada—and embody our essential corporate principles—such as honesty, integrity, and social and economic value creation.

FEMSA Comercio's social initiatives are reflected in Oxxo's Social Responsibility program. Up and running for more than two years, Oxxo's Rounding Up program now operates in 26 cities. In 2004 more than 31 million pesos were given to over 110 institutions in Mexico on behalf Oxxo's customers who agreed to round up their bills to the next peso.

Support of the Arts, Culture, and Sports

For more than 30 years, we have launched cultural initiatives to promote the arts in our communities. Among our most relevant initiatives are the FEMSA Collection and the Biennial Monterrey FEMSA. With special selections from the FEMSA Collection—which includes more than 1,000 pieces of important work by Mexican and international artists—we organized six exhibitions at different cities in 2004, which attracted more than 60,000 visitors and supported our local operations' public relations programs.

The Biennial Monterrey FEMSA is one of Mexico's most important art contests. It enjoys the enthusiastic participation of several hundred artists—with almost 1,500 pieces—representing the art movement from every state of Mexico.



ENVIRONMENTAL CARE AND PRESERVATION

All of our company's businesses work to fulfill our commitment to care for, respect, and preserve the environment in all of their processes, products, and facilities. They look to accomplish this aim through several complementary programs and activities, including the environmental audit program; the Clean Industry program, through which more than 95% of our facilities have received Clean Industry certification; and The Coca-Cola Environmental Management System—or eKOsystem—designed to move the beverage industry toward sustainability. Indeed, in 2004 three of our breweries won the award for Environmental Excellence from Mexico's Environmental and Natural Resource Agency.

INTEGRITY

QUALITY

TRANSPARENCY

LEADERSHIP

FEMSA prides itself on its high standards of corporate governance and ethics, as well as the quality and transparency of its disclosures. The company was among the leaders in compliance with the Best Corporate Practices Code, established by the Mexican Entrepreneurial Council.

The company knows that its independent directors provide an invaluable contribution to both its corporate decision-making process and shareholder value protection. Moving forward, FEMSA will continue to follow the same strict standards of corporate governance and ethics.

AUDIT COMMITTEE

The Audit Committee is responsible for the accuracy and integrity of FEMSA's quarterly and annual financial statements, as well as the performance of the company's external auditors. It works with management to develop the audit plan and review the auditors' recommendations on internal controls. Alexis E. Rovzar, Executive Partner of White & Case, S.C., is the President of the Audit Committee. Members include José Manuel Canal, Helmut Paul, and Eduardo A. Elizondo†—all of them independent directors. The secretary of the Audit Committee is José González, head of FEMSA's internal auditing area.

THE EVALUATION AND COMPENSATION COMMITTEE

The Evaluation and Compensation Committee, or Human Resources Committee, reviews and recommends management compensation programs to ensure that they are aligned with shareholders' interest and corporate performance. The Committee is also responsible for identifying suitable director and senior management candidates and setting their compensation levels. It also develops the objectives to evaluate the Chief Executive Officer and assesses his performance and remuneration in relation to these objectives. Members of the Evaluation and Compensation Committee include Roberto Servitje, Max Michel, Lorenzo H. Zambrano, Arturo Fernández, and Carlos Salguero. The Secretary of the Committee is Ricardo González, head of FEMSA's human resources department.

THE FINANCE AND PLANNING COMMITTEE

The Finance and Planning Committee works with management to set annual and long-term strategic and financial plans of the company and monitors adherence to those plans. It is responsible for setting the optimal capital structure of the company and recommends the appropriate level of borrowing, as well as the issuance of securities. Financial risk management is another responsibility of the Finance Committee. Members include Ricardo Guajardo, Alfredo Livas, Luis Téllez, and Robert E. Denham. The Secretary of the Committee is Federico Reyes, FEMSA's Chief Financial Officer.

For more information on how our corporate governance practices differ from those followed by US companies under NYSE listing standards, please refer to our Corporate Governance section at the following web site: www.femsa.com/investor.

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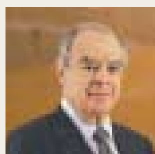
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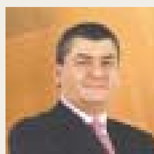
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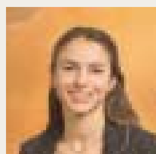
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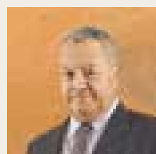
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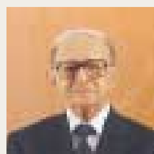
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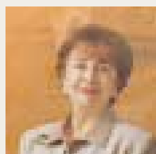
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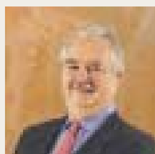
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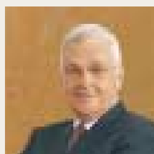
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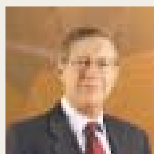
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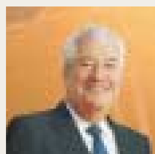
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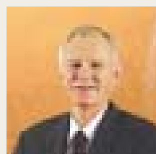
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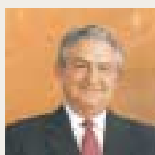
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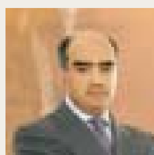
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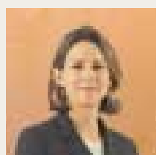
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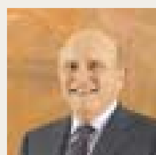
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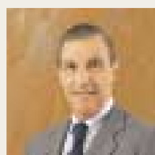
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1 **Eugenio Garza Lagüera**[1]
Honorary Life Chairman of the Board
FEMSA
Elected 1960
Alternate: Mariana Garza de Treviño

2 **José Antonio Fernández Carbajal**[1]
Chairman of the Board and
Chief Executive Officer
FEMSA
Elected 1984
Alternate: Federico Reyes

3 **Paulina Garza de Marroquín**
Board Member
Elected 2004
Alternate: Francisco Javier Fernández

4 **José Calderón**[1†]
Chairman of the Board and
Chief Executive Officer
Servicios Administrativos de
Monterrey, S.A. de C.V.
Real Estate
Elected 1955
Alternate: José Francisco Calderón

5 **Max Michel**[1a]
Chairman of the Board
El Puerto de Liverpool, S.A. de C.V.
Department Store
Elected 1985
Alternate: Max Michel Jr.

6 **Alberto Bailleres**[1]
Chairman of the Board and
Executive President
Grupo Bal
Mining and Metallurgic Industry,
Insurance Company, Department Store
Elected 1995
Alternate: Arturo Fernández

7 **Eduardo A. Elizondo**[2b†]
Member of the Board
Grupo Financiero BBVA Bancomer,
S.A. de C.V.
Financial Institution
Elected 1995
Alternate: Juan Guichard

8 **Consuelo Garza de Garza**[1]
Founder and Former President
ANSPAC
Not-for-Profit Organization
Elected 1995
Alternate: Alfonso Garza Jr.

9 **Lorenzo H. Zambrano**[2a]
Chairman of the Board and
Chief Executive Officer
Cementos Mexicanos, S.A. de C.V.
(CEMEX)
Cement
Elected 1995
Alternate: Francisco Garza

10 **Helmut Paul**[2b]
Consultant
International Finance
Corporation (IFC)
Financial Institution
Elected 1988
Alternate: Antonio Elosúa

11 **Robert E. Denham**[2c]
Executive Partner
Munger, Tolles & Olson LLP
Law Firm
Elected 2001
Alternate: Sergio Deschamps

12 **Carlos Salguero**[2a]
Former Executive President
Philip Morris International
Tobacco & Beverages
Elected 1995
Alternate: Eduardo Padilla

13 **Alfredo Livas**[3c]
President
Praxis Financiera, S.C.
Financial Consulting Firm
Elected 1995
Alternate: José González

14 **Roberto Servitje**[3a]
Chairman of the Board
Grupo Industrial Bimbo, S.A. de C.V.
Food
Elected 1995
Alternate: Alfredo Martínez-Urdal†

15 **Luis Téllez**[2c]
Managing Director
The Carlyle Group
Financial Institution
Elected 2001
Alternate: Armando Garza

16 **Bárbara Garza**[1]
President
Fundación Cultural Bancomer
Not-for-Profit Organization
Elected 2002
Alternate: Carlos Salazar

17 **José Manuel Canal**[2b]
Independent Consultant
Accounting Firm
Elected 1988
Alternate: Othón Páez

18 **Ricardo Guajardo**[3c]
President of the Audit Committee
BBVA Bancomer, S.A. de C.V.
Financial Institution
Elected 1988
Alternate: Eva Garza de Fernández

19 **Alexis E. Rovzar**[2b]
Executive Partner
White & Case S.C.
Legal Firm
Elected 1989
Alternate: Lorenzo Garza

Examiner
Ernesto González

Alternate Examiner
Ernesto Cruz Velázquez

Secretary
Alfredo Livas

Alternate Secretary
Carlos Eduardo Aldrete

Committees:
1) Shareholder
2) Independent
3) Related

a) Evaluation and Compensation
b) Auditing
c) Finance and Planning

EXECUTIVE TEAM

TALENTED

DISCIPLINED

EXPERIENCED

We are fortunate to have a deep bench of talented executives to guide our unwavering pursuit of excellence as a premier beverage company. Our team continues to build on our consistent track record of profitable growth—delivering value year after year. Together, they manage the intricate balance between market growth and profitability, simultaneously protecting and strengthening the value of our company and our industry. In the process, they ensure FEMSA's legacy of integrity well into the future.

In 2004 we bid farewell to our friend and colleague Alfredo Martínez-Urdal, deputy CEO of FEMSA, who passed away after a long illness. Alfredo was an outstanding teacher, who shared his vast experience and expertise with our team of talented executives—in whom we continue to invest and develop.

Through the discipline, dedication, and tutelage of industry leaders such as Alfredo, we have the right team and plan in place to take on new challenges and to build on FEMSA's consistent track record of success.

JOSÉ ANTONIO FERNÁNDEZ CARBAJAL

Chairman of the Board and Chief Executive Officer of FEMSA

Born in 1954, Mr. Fernández Carbajal became the Chief Executive Officer of FEMSA in January 1995 and Chairman of the Board in March 2001. He joined FEMSA in 1988 and occupied various positions in the company's corporate department as well as in the commercial area of Cuauhtémoc Moctezuma Brewery. Mr. Fernández Carbajal was also Chief Executive Officer of Oxxo. He is Chairman of the Board of Coca-Cola FEMSA and Vice-Chairman of the Board of ITESM. Mr. Fernández Carbajal holds a Bachelor's degree in Industrial and Systems Engineering and a Master's of Business Administration degree from ITESM.

FEDERICO REYES

Chief Financial Officer of FEMSA

Born in 1945, Mr. Reyes joined FEMSA in 1992 and was until 1993 a Director of Corporate Development after which he collaborated with FEMSA as an external consultant. Between 1993 and 1999, he was Chief Executive Officer of Seguros Monterrey Aetna and Valores Monterrey Aetna; and Executive Vice-President of the Insurance and Pension Division at Bancomer Financial Group. He rejoined FEMSA in 1999. Mr. Reyes holds a Bachelor's degree in Accounting from ITESM.

RICARDO GONZÁLEZ

Vice-President of Planning and Human Resources of FEMSA

Born in 1955, Mr. Gonzalez first joined FEMSA in 1977 and worked one year in the Human Resources department before pursuing an MBA program. Between 1980 and 2000, he worked for Grupo Vitro where he became the President of the Board and General Director of Vidrio Plano in 1997. He rejoined FEMSA in 2000. Mr. González holds a Bachelor's degree in Industrial Engineering and Technology Systems from ITESM and an MBA degree from Instituto de Estudios Superiores de la Empresa (IESE) in Spain.

JOSÉ GONZÁLEZ

Director of Internal Audit of FEMSA

Born in 1951, Mr. González assumed the current position in 2002. He joined FEMSA in 1979 and held various positions in the organization, including Chief Financial Officer of FEMSA Cerveza, Director of Planning and Corporate Development of FEMSA and Chief Executive Officer of FEMSA Logística. He holds a Bachelor's degree in Accounting from ITESM and an MBA degree from IPADE. He is also a Certified Public Accountant (CPA).

CARLOS SALAZAR

Chief Executive Officer of Coca-Cola FEMSA

Born in 1951, Mr. Salazar has spent his entire career with FEMSA since 1973, where he held senior positions in several subsidiaries, including General Manager of Grafo Regia and Chief Executive Officer of FEMSA Cerveza. He was appointed CEO of Coca-Cola FEMSA in 2000. He was President of the Comision Siglo XXI for the city of Monterrey. Mr. Salazar holds a Bachelor's degree in Economics from ITESM and did postgraduate studies in Business Administration and in Economic Development in Italy.

JAVIER ASTABURUAGA

Co-Chief Executive Officer of FEMSA Cerveza

Born in 1959, Mr. Astaburuaga assumed the current position in October 2003. He joined FEMSA in 1982 as a financial information analyst and later acquired experience in corporate development, administration and finance. Between 1993 and 2001, he held various senior positions at FEMSA Cerveza. For two years prior to being appointed as Co-CEO of FEMSA Cerveza, Mr. Astaburuaga was the Sales Director of FEMSA Cerveza for the North of Mexico. He has a Bachelor's degree in Accounting from ITESM.

JORGE LUIS RAMOS

Co-Chief Executive Officer of FEMSA Cerveza

Born in 1952, Mr. Ramos joined FEMSA in 1996 as a Human Resources Director, the position he held until 1999, when he became the Sales Director of FEMSA Cerveza for the South of Mexico. He assumed the current position in October 2003. Between 1978 and 1996, he held Director positions in various companies, including Industrias Monterrey, Grupo Financiero Serfin, Orion and Hylsa. He has a Bachelor's degree from ITESM and an MBA from the University of Pennsylvania (Wharton).

EDUARDO PADILLA

Chief Executive Officer of FEMSA Comercio

Born in 1955, Mr. Padilla joined FEMSA in 1997 as a Director of Planning and Control. In January 2000, he became the CEO of the Strategic Businesses Division. Prior to joining FEMSA, Mr. Padilla spent 20 years at Alfa, where between 1978 and 1997, he was the Chief Executive Officer of the Terza subsidiary. He holds a Bachelor's degree in Mechanical and Industrial Engineering from ITESM and an MBA from Cornell University.

SERGIO SÁENZ

Vice-President of Strategic Procurement FEMSA

Born in 1950, Mr. Sáenz assumed the current position in October 2003. He joined FEMSA in 1980 in the Strategic Planning department, where he remained until 1984. From 1985 to 1999, he worked for Imsalum becoming the President of the company in 1995. Mr. Sáenz rejoined FEMSA in 1999 and was Chief Financial Officer of FEMSA Cerveza until 2003. He holds a Bachelor's degree in Chemical Engineering from UANL and an MBA from University of Texas, Austin.

HÉCTOR FRANCISCO NÁJERA

Vice-President of Business Processes and Information Technology

Héctor Nájera was born in 1947. He assumed the current position in July 2004. He joined FEMSA in 1993, working at Cervecería Cuauhtémoc Moctezuma, where he held several positions, and became Business Development Vice-President. Prior to joining FEMSA, he was Manufacturing Director in Deacero and Operations Director of Cuprum. He obtained a degree in Engineering from ITESM and a Master's Degree in Industrial Engineering from the University of Toledo, Ohio.

IN MEMORIAM

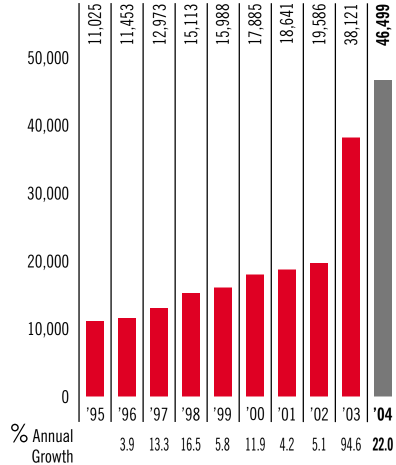
Alfredo Martínez-Urdal
Deputy CEO of FEMSA
1931–2004

BUSINESS UNIT HIGHLIGHTS

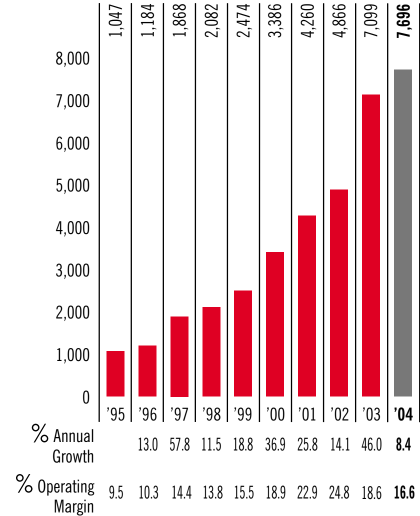
COCA-COLA FEMSA

An Integrated Success
Coca-Cola FEMSA successfully finalized—and is already realizing the rewards of—the consolidation process. For 2004, we produced consolidated revenue of more than Ps. 46.4 billion, consolidated operating income of over Ps. 7.6 billion, and net income of more than Ps. 5.4 billion, resulting in earnings per share of Ps. 2.93. Looking forward, our geographic diversification will clearly enable us to foster better balanced top- and bottom-line growth.

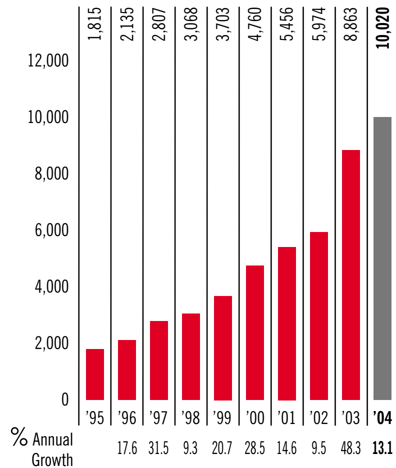
TOTAL REVENUES
(millions of 2004 pesos)



OPERATING INCOME
(millions of 2004 pesos)

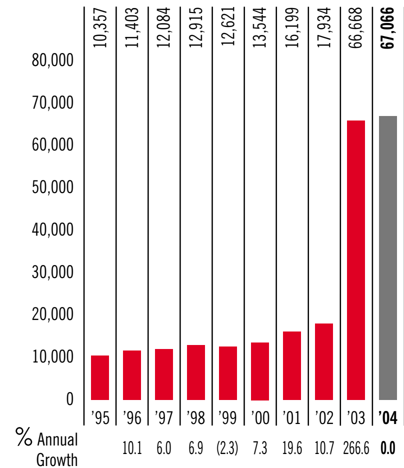


EBITDA*
(millions of 2004 pesos)

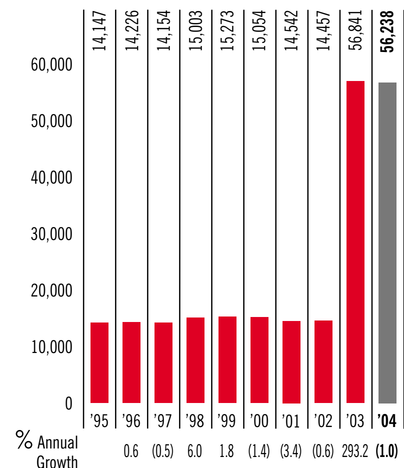


*EBITDA equals Operating Income plus Depreciation and Amortization of other non-cash items.

TOTAL ASSETS
(millions of 2004 pesos)



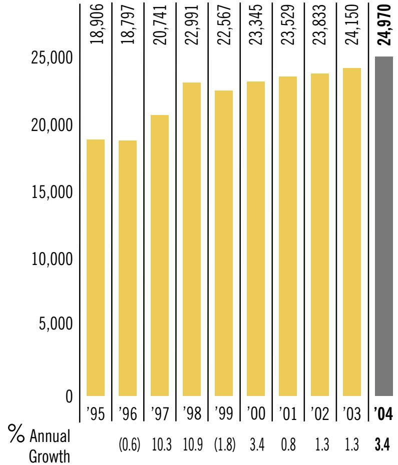
PERSONNEL



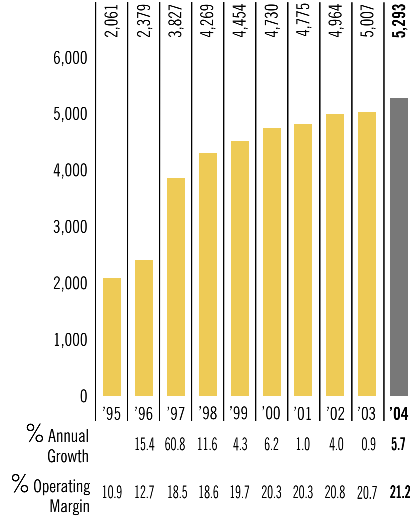
BUSINESS UNIT HIGHLIGHTS

FEMSA CERVEZA

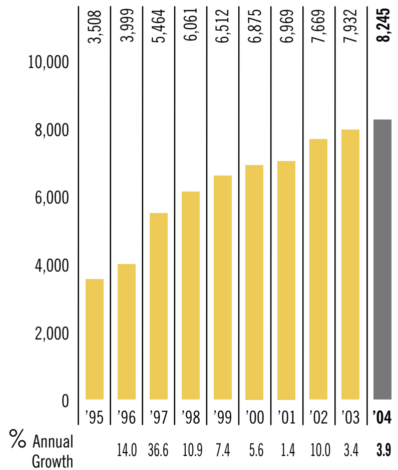
TOTAL REVENUES
(millions of 2004 pesos)



OPERATING INCOME *(before management fee)*
(millions of 2004 pesos)

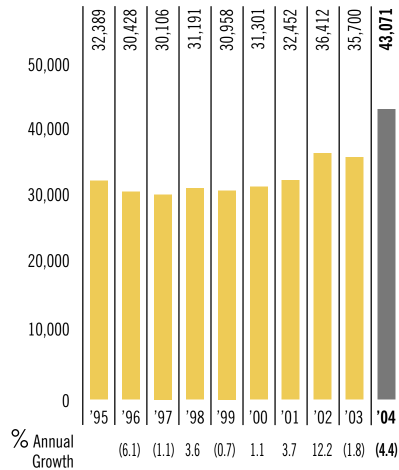


EBITDA*
(millions of 2004 pesos)



*EBITDA equals Operating Income plus Depreciation and Amortization of other non-cash items.

TOTAL ASSETS
(millions of 2004 pesos)



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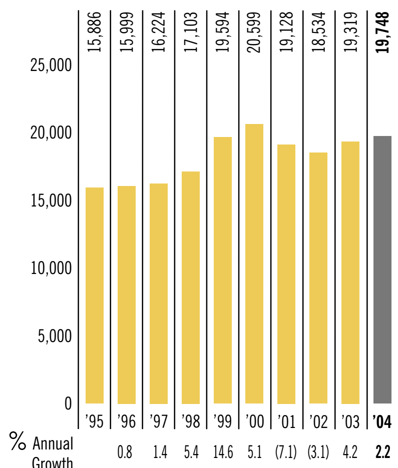
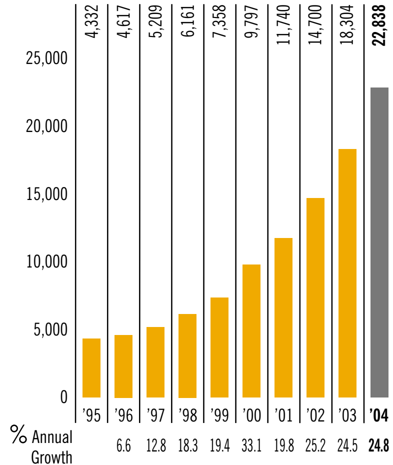


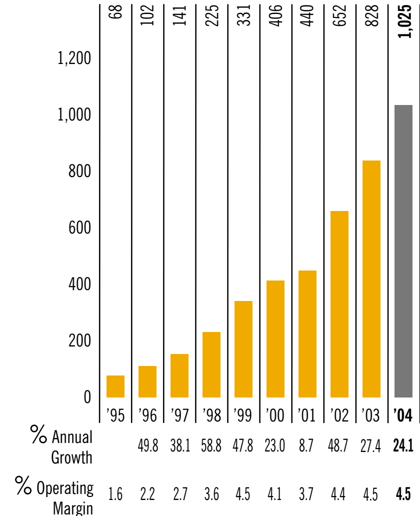
Profitable Market Growth

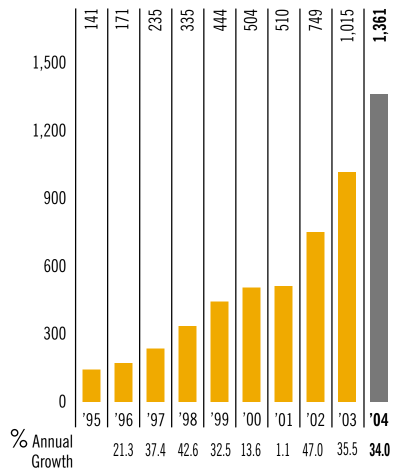
FEMSA Cerveza made great strides with its business model. We were able to gain market share and achieve a return on invested capital of more than 11% in the face of a challenging environment. Moreover, our repurchase of 30% of FEMSA Cerveza's capital gave us 100% ownership of our beer operations, provided us with maneuvering flexibility, and laid the foundation for a new stage of export growth. Looking forward, we will continue to manage our company with a view for the long term. We will continue to balance our profitability, our brands' equity, and our market growth, while working to preserve and enhance the value of our industry.

FEMSA COMERCIO

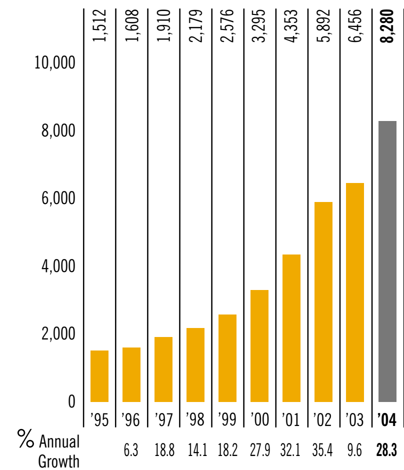
Precision Expansion and Market Penetration
For the third consecutive year, FEMSA Comercio produced top-line growth of more than 20%. Oxxo is now the largest and most profitable convenience-store chain of its kind in Latin America. Approximately one third of Oxxo's 2004 revenue growth came from same-store sales, and two thirds came from our successful expansion; we opened 668 new stores in 2004. With more than US$2.0 billion in sales, 24% top-line growth, and stable margins, we are on track to further expand Oxxo's market coverage and deepen FEMSA's market penetration.

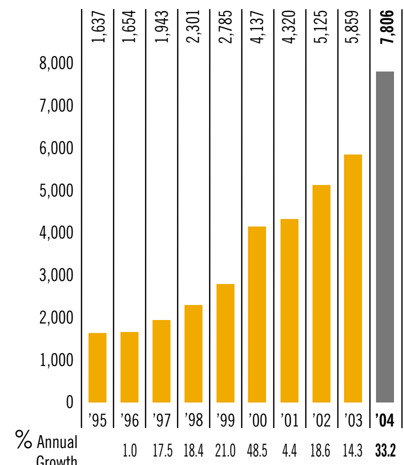






*EBITDA equals Operating Income plus Depreciation and Amortization of other non-cash items.





Financial Review 2004

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FINANCIAL SUMMARY

Amounts expressed in millions of constant Mexican pesos (Ps.) as of December 31, 2004.

Income Statement
Net sales
Total revenues
Cost of sales
Gross profit
Operating expenses
Income from operations
Integral result of financing
Participation in affiliated companies
Other expenses (income), net
Taxes
Net income before effect of change in accounting principle
Effect of change in accounting principle
Consolidated net income for the year
Net majority income
Net minority income
Ratios to Total Revenues (%)
Gross margin (gross profit / net sales)
Operating margin
Other information
Depreciation
Non-cash charges
EBITDA
Capital expenditures [1]
Balance Sheets
Assets
Current Assets
Investment in Shares
Properties, Plant and Equipment
Other Assets
Intangible Assets and Goodwill
Total Assets
Liabilities
Short-term debt
Current Liabilities
Long-term debt
Labor liabilities
Deferred income taxes
Other liabilities
Total Liabilities
Stockholders' Equity
Majority interest
Minority interest in consolidated subsidiaries
Financial Ratios (%)
Leverage
Capitalization
Data per share
Book value [2][4]
Net income [3][4]
Dividends paid
Series "B" shares
Series "D" shares
Number of employees
Number of shares [4][5]

2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Ps. 93,478	Ps. 79,854	Ps. 57,770	Ps. 54,966	Ps. 52,629	Ps. 47,695	Ps. 45,353	Ps. 39,266	Ps. 35,159	Ps. 34,818
93,956	80,154	57,997	55,137	52,702	47,765	45,488	39,548	35,251	34,929
49,969	41,712	28,869	27,432	26,186	24,390	24,774	21,617	20,849	20,627
43,987	38,442	29,128	27,705	26,516	23,375	20,714	17,931	14,402	14,302
30,249	25,802	18,928	18,461	18,225	15,940	14,275	12,261	10,991	11,393
13,738	12,640	10,200	9,244	8,291	7,435	6,439	5,670	3,411	2,909
1,286	3,495	332	239	1,660	44	1,917	423	(1,265)	1,702
(63)	(31)	(92)	(36)	(40)	(64)	(78)	(70)	(75)	(32)
871	667	960	301	(281)	110	504	300	(201)	226
2,395	3,584	3,960	3,228	2,750	2,369	1,266	1,091	685	620
9,249	4,925	5,040	5,512	4,202	4,976	2,830	3,926	4,267	393
—	—	—	32	—	—	—	—	—	—
9,249	4,925	5,040	5,480	4,202	4,976	2,830	3,926	4,267	393
5,831	3,302	3,100	3,728	3,014	3,771	1,916	1,689	2,077	(388)
3,418	1,623	1,940	1,752	1,188	1,205	914	2,237	2,190	781
47.1%	48.1%	50.4%	50.4%	50.4%	49.0%	45.7%	45.7%	41.0%	41.1%
14.6%	15.8%	17.6%	16.8%	15.7%	15.6%	14.2%	14.3%	9.7%	8.3%
3,751	3,319	2,638	2,548	2,685	2,455	2,121	2,107	2,026	1,453
2,703	2,365	2,115	1,706	1,707	1,450	1,221	1,009	854	723
20,192	18,324	14,953	13,498	12,683	11,340	9,781	8,786	6,291	5,085
6,902	7,137	6,077	5,674	5,010	4,770	5,875	5,039	4,712	3,869
20,879	21,245	25,715	17,546	14,575	12,068	11,225	10,690	10,097	10,511
759	1,011	605	493	572	1,394	1,387	1,541	1,201	2,747
44,291	44,814	32,728	31,706	31,269	31,816	32,738	31,251	31,015	33,489
7,903	7,876	6,175	5,244	4,284	4,039	3,555	2,822	1,768	1,418
46,845	36,707	652	1,019	1,967	1,952	2,209	2,405	1,906	1,669
120,677	111,653	65,875	56,008	52,667	51,269	51,114	48,709	45,987	49,834
9,526	5,353	4,379	1,713	1,957	2,281	3,857	4,744	6,483	2,783
13,969	12,544	8,567	7,695	7,246	7,002	5,369	4,986	4,460	4,568
36,285	35,171	10,721	7,784	8,421	8,776	10,911	13,500	10,886	17,743
1,946	1,942	1,174	878	814	617	1,148	1,167	1,298	1,472
4,157	5,217	4,388	4,334	4,686	—	—	—	—	—
2,749	2,754	593	623	383	411	161	181	290	336
68,632	62,981	29,822	23,027	23,507	19,087	21,446	24,578	23,417	26,902
52,045	48,672	36,053	32,981	29,160	32,182	29,668	24,131	22,570	22,932
35,324	30,078	25,258	23,235	20,507	22,941	20,634	8,006	7,175	5,624
16,721	18,594	10,795	9,746	8,653	9,241	9,034	16,125	15,395	17,308
1.32	1.29	0.83	0.70	0.81	0.59	0.72	1.02	1.04	1.17
0.52	0.48	0.32	0.23	0.28	0.27	0.36	0.48	0.52	0.50
6.668	5.677	4.768	4.386	3.864	4.295	3.863	—	—	—
1.101	0.624	0.585	0.704	0.568	0.706	0.359	—	—	—
0.090	0.067	0.112	0.073	0.084	0.060	0.048	—	—	—
0.112	0.084	0.140	0.092	0.105	0.075	0.060	—	—	—
88,217	86,136	41,686	41,500	43,201	41,787	39,754	37,185	35,937	35,133
5,297.31	5,297.31	5,297.31	5,297.31	5,307.59	5,341.34	5,341.34	—	—	—

(1) Includes investments in property, plant and equipment, as well as deferred charges.
(2) Majority stockholders' equity divided by the total number of shares outstanding at the end of each year.
(3) Majority net income divided by the total number of shares outstanding at the end of each year.
(4) Before 1998, the information is not comparable as a consequence of the VISA-FEMSA restructuring in 1998.
(5) Total number of shares outstanding at the end of each year expressed in millions.

Audited Financial Results for the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003

Set forth below is certain audited financial information for Fomento Económico Mexicano, S.A. de C.V. and its subsidiaries ("FEMSA" or the "Company") (NYSE: FMX; BMV: FEMSA UBD). FEMSA is a holding company whose principal activities are grouped mainly under the following sub-holding companies (the "Sub-holding Companies"): Coca-Cola FEMSA, S.A. de C.V. ("Coca-Cola FEMSA" or "KOF"), which engages in the production, distribution and marketing of soft drinks; FEMSA Cerveza, S.A. de C.V. ("FEMSA Cerveza"), which engages in the production, distribution and marketing of beer; and FEMSA Comercio, S.A. de C.V. ("FEMSA Comercio"), which engages in the operation of convenience stores.

All of the figures in this report were prepared in accordance with Mexican Generally Accepted Accounting Principles ("Mexican GAAP") and have been restated in constant Mexican pesos ("Pesos" or "Ps.") with purchasing power as of December 31, 2004. As a result, all percentage changes are expressed in real terms.

This report may contain certain forward-looking statements concerning FEMSA's future performance that should be considered as good faith estimates made by the Company. These forward-looking statements reflect management expectations and are based upon currently available data. Actual results are subject to future events and uncertainties, which could materially impact the Company's actual performance.

FEMSA CONSOLIDATED

FEMSA AND SUBSIDIARIES		*Total Revenues* [1]	*% Growth vs. 2003*		*Income from Operations* [1] [2]	*% Growth vs. 2003*
FEMSA Consolidated	Ps.	93,956	17.2%	Ps.	13,738	8.7%
Coca-Cola FEMSA		46,499	22.0%		7,696	8.4%
FEMSA Cerveza		24,970	3.4%		5,293	5.7%
FEMSA Comercio		22,838	24.8%		1,025	23.7%

(1) Amounts in millions of pesos as of December 31, 2004.
(2) Before management fees for FEMSA Cerveza and FEMSA Comercio.

Consolidated total revenues increased 17.2% to Ps. 93.956 billion during 2004. All of FEMSA's operations—soft drinks, beer, and retail—contributed positively to this double-digit pace. Coca-Cola FEMSA's total revenues increased 22.0% to Ps. 46.499 billion, mainly due to the inclusion of the territories acquired in May 2003. FEMSA Comercio posted strong total revenue growth of 24.8% to Ps. 22.838 billion, due in large part to the 668 net new stores opened during the year. FEMSA Cerveza also contributed positively with total revenue growth of 3.4% to Ps. 24.970 billion, due to a 4.5% increase in total sales volume that was partially offset by a 1.2% decrease in real price per hectoliter.

Consolidated gross margin decreased 120 basis points to Ps. 43.987 billion, or 46.8% of consolidated total revenues during 2004. The downward pressure on margins resulted mainly from a gross margin contraction at Coca-Cola FEMSA and the greater contribution of lower margin Oxxo retail operations to FEMSA's consolidated results.

Consolidated income from operations increased 8.7% to Ps. 13.738 billion during 2004. The consolidated operating margin decreased 120 basis points from 2003 levels to 14.6% of consolidated total revenues.

Net income increased 87.8% to Ps. 9.249 billion during 2004. This growth was due to (1) growth of 8.7% in consolidated income from operations, (2) foreign exchange gains due to the strength of the peso over the US dollar denominated debt, (3) a one-time deferred income tax benefit during 4Q04 from a reduction in Mexican corporate tax rates, and (4) a non-recurrent tax gain of Ps. 1.311 billion at Coca-Cola FEMSA as explained in the second quarter earnings release.

Net majority income per FEMSA Unit[1] reached Ps. 5.504 during 2004. Net majority income per FEMSA ADS, considering an exchange rate of Ps. 11.146 per dollar, was US$4.94 during 2004. Consolidated net majority income amounted to Ps. 5.831 billion for the year, up 76.6% from 2003.

Capital expenditures reached Ps. 6.902 billion during 2004, down 3.3% from 2003 levels.

CONSOLIDATED NET DEBT

As of December 31, 2004, FEMSA recorded a cash balance of Ps. 6.822 billion (US$612 million), short-term debt of Ps. 312 million (US$28 million), bridge financing of Ps. 5.674 billion (US$509 million) and long-term debt of Ps. 39.825 billion (US$3,573 million), for a net debt of Ps. 38.989 billion, 20.7% higher than a year ago, reflecting new debt contracted to finance the repurchase of 30% of FEMSA Cerveza, which was partially offset by a significant debt reduction at Coca-Cola FEMSA.

DIVESTITURES

Consistent with the beverage strategy, we have divested US$154 million of non-strategic assets. These divestitures include COTESA (cardboard packaging), sold in 2000 for US$70 million; AYSSA (billboards), sold by FEMSA Cerveza in 2001 for US$28 million; DICASA (employee vouchers for food and other goods), sold in 2003 for US$28 million; and COMEXLA (food cans), where we sold a 49% stake and formed a joint venture in 2004. We are now in advanced conversations to divest the remaining 51% of COMEXLA. The combined amount for both transactions will be US$28 million, and we expect to close in the second quarter of 2005. We are largely complete with the divestiture of non-strategic assets and will continue to pursue the sale of those that remain, under the appropriate market conditions.

FINANCIAL RESULTS BY BUSINESS SEGMENT

COCA-COLA FEMSA ("KOF")

Total sales volume reached 1,855 Million Unit Cases (MCU) during 2004, increasing 1.7% from 2003. This primarily reflects higher soft drinks volumes in a majority of the territories, which compensated for the lower sales volume of bottled water in Mexico and flavors in Colombia and Brazil.

Total CSD volumes increased approximately 4% to 1,549 MCU due to solid growth of brand Coca-Cola in all of the territories, which increased 3% during 2004, and solid growth in flavor brands in the majority of the territories with the exception of Colombia and Brazil. The introduction of new family presentations and channel segmentation efforts contributed significantly to these results.

KOF consolidated revenues increased 22.0% to Ps. 46.499 billion during 2004, mainly due to the inclusion of a full year of operations in the new territories as well as increased sales in the existing territories.

Average price per unit case decreased 4.5% from Ps. 26.11 during 2003 to Ps. 24.95 during 2004. This decline was primarily due to a decrease in the average price of soft drinks in Mexico.

Cost of goods sold increased 23.7% to Ps. 23.964 billion during 2004, mainly due to the inclusion of the newly acquired territories. As a percentage of total revenues, the cost of goods sold increased 70 basis points mainly due to a reduction in the average price per unit case.

Operating expenses increased 27.3% to Ps. 14.839 billion during 2004, due to the inclusion of the newly acquired territories. As a percentage of total revenues, operating expenses increased 130 basis points, due to lower absorption of fixed costs. Despite this, operating expenses per unit case remained mostly flat due to the implementation cost reduction initiatives throughout all the territories and better commercial and distribution practices.

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(1) FEMSA Units consists of FEMSA UBD units and FEMSA UB units. Each FEMSA UBD unit is comprised of one Series B share, two Series D-B shares and two Series D-L shares. Each FEMSA UB unit is comprised of five series B shares. The number of FEMSA Units outstanding as of December 31, 2004 was 1,059,462,090, equivalent to the total number of shares of the Company outstanding as of December 31, 2004 divided by 5.

Income from operations increased 8.4% to Ps. 7.696 billion during 2004, principally due to the inclusion of the newly acquired territories. The operating income margin as a percentage of total revenues decreased 200 basis points during 2004, from 18.6% to 16.6%, mainly due to the inclusion of the newly acquired territories, which had a lower operating income margin, and the reduction in the average price per unit case due to increased competition in Mexico and to a lesser extent throughout all of the territories.

FEMSA CERVEZA

Domestic sales volume increased 3.8% to 23.442 million hectoliters during 2004. This positive sales trend seen throughout 2004 was primarily due to favorable demand across most of Mexico, broader availability of FEMSA Cerveza's beers, successful execution at the point of sale, and revenue management initiatives. The implementation of micro-segmentation strategies in some territories reflected increased leverage of the functionality of the Enterprise Resource Planning ("ERP") system, which is currently operational in 79% of the total direct domestic volume.

FEMSA Cerveza also increased the level of innovation in the packaging and product portfolio, particularly the successful re-launch of Tecate Light, the rollout of Sol Brava throughout Central Mexico, and the launching of non-returnable Sol in the Northwest Mexico territories.

Export sales volume increased 13.0% to 2.240 million hectoliters during 2004, largely due to increased sales volume in the United States through the Tecate and Dos Equis brands. On January 1, the transfer of FEMSA Cerveza's brands to Heineken USA was completed as previously announced.

Total revenues increased 3.4% to Ps. 24.970 billion during 2004. Total sales volume growth of 4.5% and a 2.3% increase in the export real price per hectoliter more than offset a 1.4% decline in the domestic real price per hectoliter. Domestic sales represented 91.3% of the total, while the remaining 8.7% came from exports.

Cost of goods sold increased 2.8%, slightly below total revenue growth during 2004. Gross profit reached Ps. 14.695 billion, a 3.8% increase from 2003 resulting in a gross margin of 58.8%. The 20 basis points of gross margin expansion resulted from better purchasing terms for raw materials and operating efficiencies.

Income from operations (before management fees) increased 5.7% to Ps. 5.293 billion during 2004. The year over year growth reflects an increase in total revenues, combined with expense containment initiatives. Operating expenses increased 2.8%, in-line with total revenue growth. Operating margin (before management fees) increased 50 basis points to 21.2% of total revenues due to (1) solid volume growth on the back of slightly weaker pricing, (2) a reduction in cost of goods sold, and (3) a more efficient use of operating expenses.

FEMSA COMERCIO

Total revenues increased 24.8% to Ps. 22.838 billion during 2004. As of December 31, 2004, we had 3,466 Oxxos nationwide, an increase of 23.9% from 2003. 2004 was the 5th consecutive year of over 20% annual growth in the number of new stores.

Same store sales increased an average of 8.9%, reflecting an increase in the average ticket of 3.8% and an increase in store traffic of 4.9%.

Cost of goods sold increased 24.3%, slightly below total revenue growth during 2004. Gross profit reached Ps. 6.063 billion, a 26.0% increase from 2003 resulting in a gross margin of 26.5%. The 20 basis points of gross margin expansion resulted from successful category management.

Income from operations (before management fees) increased 23.7% to Ps. 1.025 billion during 2004. This increase was in-line with revenue growth, and contributed to a stable operating margin of 4.5% for 2004, in-line with 2003 levels.

ACCOUNTING MATTERS

- Due to the acquisition of Panamerican Beverages, Inc. ("Panamco"), we began consolidating Panamco's results into Coca-Cola FEMSA and FEMSA from May 2003. Panamco historically prepared its financial statements in accordance with US GAAP and presented financial information in US dollars. FEMSA has historically prepared and continues to prepare its financial statements in accordance with Mexican GAAP and present financial information in Mexican pesos. The 2004 consolidated results of FEMSA and Coca-Cola FEMSA include twelve months of results of Panamco operations, while in 2003 the consolidated results of FEMSA and Coca-Cola FEMSA include eight months of Panamco operations and twelve months of the original Coca-Cola FEMSA territories (Valley of Mexico, Southeast of Mexico, and Buenos Aires). The results of Coca-Cola FEMSA and FEMSA consolidated are not fully comparable on an annual basis until the end of 2005. However, the sales volume figures of Coca-Cola EMSA are comparable with previous years and include sales volume figures for the twelve months of Panamco operations.

- In 2004, FEMSA Empaques' core operations, glass bottle and can, were integrated into FEMSA Cerveza. The results presented herein provide reclassified figures for full comparability for all quarters from 2003 through 2004. Going forward, FEMSA will provide financial results by segment for FEMSA Cerveza, Coca-Cola FEMSA, and FEMSA Comercio. FEMSA Empaques' results are no longer presented as a separate business segment.

- FEMSA Cerveza purchases packaging materials from external providers that are used to transport bottles and cans. These materials are subsequently sold to FEMSA's glass and can operations. Before the merger, these sales were included in FEMSA Cerveza's sales line and therefore, in the domestic price per hectoliter calculation. However, due to the integration of FEMSA's glass and can business into FEMSA Cerveza, these transactions are now eliminated in the consolidation process and no longer appear as part of FEMSA Cerveza's sales.

- During the course of the SEC review of FEMSA's pending registration statement, the SEC noted that EITF 96-16 does not permit FEMSA to consolidate the financial results of Coca-Cola FEMSA under US GAAP, due to the rights of The Coca-Cola Company as a minority shareholder in Coca-Cola FEMSA. As a result, the application of EITF 96-16 will be reflected in the notes to FEMSA's financial statements, which present summary financial information under US GAAP and a reconciliation of net income and stockholders' equity between Mexican GAAP and US GAAP. There is no change in the net income and stockholders' equity under US GAAP; therefore, earnings per share are not impacted. The application of EITF 96-16 will have no effect on FEMSA's financial statements under Mexican GAAP, and we will continue to consolidate Coca-Cola FEMSA as required under Mexican GAAP.

- The new requirements of Mexican GAAP under Bulletin D-3, "Labor Obligations," clarify that the total period cost related to the pension plan should be reported above the operating income line. Historically, FEMSA registered financing costs related to the pension plan as part of net interest expense, and the amortization of past services in other expenses. In compliance with the new requirements, FEMSA and its subsidiaries reclassified these costs above the operating income line and for comparability, reclassified the previous years.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Fomento Económico Mexicano, S.A. de C.V.:

We have audited the accompanying consolidated balance sheets of Fomento Económico Mexicano, S.A. de C.V. (a Mexican corporation) and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 2004, all expressed in millions of Mexican pesos of purchasing power as of December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of FEMSA Comercio, S.A. de C.V. and subsidiaries for each of the three years in the period ended December 31, 2004, nor the financial statements of FEMSA Empaques, S.A. de C.V. and subsidiaries, nor the financial statements of the subsidiaries spun off from FEMSA Empaques, S.A. de C.V. and subsidiaries, as mentioned in Note 1, for each of the two years in the period ended December 31, 2004. The subsidiaries we did not audit represented approximately 14% and 12% of the consolidated total assets as of December 31, 2004 and 2003, respectively, and 27%, 26% and 23% of the consolidated total revenues for each of the three years in the period ended December 31, 2004, respectively. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in Mexico and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Fomento Económico Mexicano, S.A. de C.V. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, changes in their stockholders' equity and changes in their financial position for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in Mexico.

As mentioned in Note 3, Coca-Cola FEMSA, S.A. de C.V. acquired Panamerican Beverages, Inc. on May 6, 2003, incorporating its results of operations since the date of acquisition, as a result of which the consolidated statements of income and changes in financial position for the years ended December 31, 2004, 2003 and 2002, are not comparable.

Accounting principles generally accepted in Mexico vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of net income for each of the three years in the period ended December 31, 2004, and the determination of stockholders' equity at December 31, 2004 and 2003, to the extent summarized in Note 27.

As discussed in Note 26 A) to the consolidated financial statements, the reconciliation to U.S. GAAP as of December 31, 2003 and for the two years then ended has been restated for the deconsolidation of Coca-Cola FEMSA for U.S. GAAP purposes only.

Our audits also comprehended the translation of the Mexican peso amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 4. The translation of the financial statement amounts into U.S. dollars and the translation of the financial statements into English have been made solely for the convenience of readers in the United States of America.

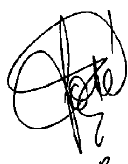
Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu

C. P. C. Gabriel González Martínez
Monterrey, N.L., Mexico
February 11, 2005
(except with respect to Notes 26 and 27,
as to which the date is March 16, 2005)

Consolidated Balance Sheets

At December 31, 2004 and 2003. Amounts expressed in millions of US dollars ($) and in millions of constant Mexican pesos (Ps.) as of December 31, 2004.	2004				2003	
ASSETS						
Current Assets:						
Cash and cash equivalents	$	612	Ps.	6,822	Ps.	8,228
Accounts receivable		405		4,515		4,377
Inventories		719		8,009		7,284
Recoverable taxes		87		972		693
Prepaid expenses		50		561		663
Total current assets		1,873		20,879		21,245
Investments in shares		68		759		1,011
Property, plant and equipment		3,974		44,291		44,814
Intangible assets		4,203		46,845		36,707
Deferred recoverable income tax		121		1,353		1,355
Other assets		588		6,550		6,521
TOTAL ASSETS	$	10,827	Ps.	120,677	Ps.	111,653
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities:						
Bank loans	$	537	Ps.	5,986	Ps.	2,621
Interest payable		35		394		426
Current maturities of long-term debt		318		3,540		2,732
Suppliers		709		7,904		7,455
Taxes payable		230		2,561		1,544
Accounts payable, accrued expenses and other liabilities		279		3,110		3,119
Total current liabilities		2,108		23,495		17,897
Long-Term Liabilities:						
Bank loans and notes payable		3,255		36,285		35,171
Labor liabilities		175		1,946		1,942
Deferred income tax payable		373		4,157		5,217
Other liabilities		247		2,749		2,754
Total long-term liabilities		4,050		45,137		45,084
Total liabilities		6,158		68,632		62,981
Stockholders' Equity:						
Minority interest in consolidated subsidiaries		1,500		16,721		18,594
Majority interest:						
Capital stock		400		4,463		4,463
Additional paid-in capital		1,138		12,687		12,687
Retained earnings from prior years		1,704		18,995		16,244
Net income		523		5,831		3,302
Cumulative other comprehensive income		(596)		(6,652)		(6,618)
Majority interest		3,169		35,324		30,078
Total stockholders' equity		4,669		52,045		48,672
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	10,827	Ps.	120,677	Ps.	111,653

The accompanying notes are an integral part of these consolidated balance sheets.
Monterrey, N.L., Mexico, February 11, 2005.



José Antonio Fernández Carbajal
Chief Executive Officer

Federico Reyes García
Chief Financial Officer

Consolidated Income Statements

For the years ended December 31, 2004, 2003 and 2002. Amounts expressed in millions of US dollars ($) and in millions of constant Mexican pesos (Ps.) as of December 31, 2004, except per share data.

	2004		2003	2002
Net sales	$ 8,387	Ps. 93,478	Ps. 79,854	Ps. 57,770
Other operating revenues	43	478	300	227
Total revenues	8,430	93,956	80,154	57,997
Cost of sales	4,483	49,969	41,712	28,869
Gross profit	3,947	43,987	38,442	29,128
Operating expenses:				
Administrative	594	6,621	5,725	5,163
Selling	2,120	23,628	20,077	13,765
	2,714	30,249	25,802	18,928
Income from operations	1,233	13,738	12,640	10,200
Integral result of financing:				
Interest expense	(338)	(3,764)	(2,591)	(926)
Interest income	49	541	743	489
Foreign exchange loss	(1)	(15)	(2,664)	(314)
Gain on monetary position	175	1,952	1,017	419
	(115)	(1,286)	(3,495)	(332)
Participation in affiliated companies	6	63	31	92
Other expenses, net	(79)	(871)	(667)	(960)
Income before taxes and employee profit sharing	1,045	11,644	8,509	9,000
Taxes and employee profit sharing	215	2,395	3,584	3,960
Consolidated net income	$ 830	Ps. 9,249	Ps. 4,925	Ps. 5,040
Net majority income	523	5,831	3,302	3,100
Net minority income	307	3,418	1,623	1,940
Consolidated net income	$ 830	Ps. 9,249	Ps. 4,925	Ps. 5,040
Net majority income (US dollars and constant Mexican pesos):				
Per Series "B" share	$ 0.09	Ps. 0.98	Ps. 0.56	Ps. 0.52
Per Series "D" share	0.11	1.23	0.70	0.65

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 2004, 2003 and 2002. Amounts expressed in millions of US dollars ($) and in millions of constant Mexican pesos (Ps.) as of December 31, 2004.	**2004**		2003	2002
Resources Generated by (Used in):				
Operations:				
Consolidated net income	**$ 830**	**Ps. 9,249**	Ps. 4,925	Ps. 5,040
Depreciation	**337**	**3,751**	3,319	2,638
Impairment of long-lived assets	**44**	**487**	831	654
Deferred tax	**(90)**	**(1,004)**	471	15
Amortization and other	**223**	**2,501**	2,121	1,856
	1,344	**14,984**	11,667	10,203
Working capital:				
Accounts receivable	**(10)**	**(108)**	390	466
Inventories	**(112)**	**(1,243)**	(968)	(755)
Recoverable taxes, net	**88**	**978**	(655)	(681)
Prepaid expenses	**9**	**103**	127	(60)
Suppliers and other liabilities	**76**	**852**	(1,048)	934
Interest payable	**(3)**	**(32)**	118	(11)
Labor liabilities	**(21)**	**(252)**	(115)	—
Net resources generated by operating activities	**1,371**	**15,282**	9,516	10,096
Investments:				
Investments in shares	**16**	**175**	(4)	(139)
Property, plant and equipment	**(303)**	**(3,385)**	(4,238)	(3,394)
Intangible assets and other	**(316)**	**(3,517)**	(2,901)	(2,683)
Acquisition of FEMSA Cerveza minority interest	**(1,324)**	**(14,751)**	—	—
Acquisition of Panamerican Beverage, Inc.	**—**	**—**	(31,187)	—
Other investments	**—**	**—**	(61)	(186)
Net resources used in investing activities	**(1,927)**	**(21,478)**	(38,391)	(6,402)
Financing Activities:				
Bank loans paid during the year	**(1,567)**	**(17,463)**	(15,272)	(1,162)
Bank loans acquired during the year	**2,179**	**24,291**	31,850	7,158
Amortization in real terms of long-term liabilities	**(169)**	**(1,880)**	(1,117)	(428)
Notes payable and others	**24**	**271**	(53)	86
Capital contribution by The Coca-Cola Company	**—**	**—**	7,406	—
Dividends declared and paid	**(76)**	**(843)**	(1,124)	(1,247)
Capital contribution by Coca-Cola FEMSA's minority interest	**53**	**590**	—	—
Cumulative translation adjustment	**(14)**	**(176)**	(519)	(512)
Net resources generated in financing activities	**430**	**4,790**	21,171	3,895
Cash and cash equivalents:				
Net (decrease) increase	**(126)**	**(1,406)**	(7,704)	7,589
Initial balance	**738**	**8,228**	15,932	8,343
Ending balance	**$ 612**	**Ps. 6,822**	Ps. 8,228	Ps. 15,932

The accompanying notes are an integral part of these consolidated statements of changes in financial position.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2004, 2003 and 2002.
Amounts expressed in millions of constant Mexican pesos (Ps.) as of December 31, 2004.

	Capital Stock	Additional Paid-in Capital
Balances at December 31, 2001	Ps. 4,463	Ps. 10,884
Transfer of prior year income		
Dividends declared and paid		
Comprehensive income		
Balances at December 31, 2002	4,463	10,884
Transfer of prior year income		
Dividends declared and paid		
Capital contribution by The Coca-Cola Company		1,803
Comprehensive income		
Balances at December 31, 2003	4,463	12,687
Transfer of prior year income		
Dividends declared and paid		
Capital contribution by Coca-Cola FEMSA's minority interest		
Acquisition of FEMSA Cerveza minority interest		
Comprehensive income		
Balances at December 31, 2004	**Ps. 4,463**	**Ps. 12,687**

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

Retained Earnings from Prior Years	*Net Income*	*Cumulative Other Comprehensive Income*	*Majority Interest*	*Minority Interest in Consolidated Subsidiaries*	*Total Stockholders' Equity*
Ps. 10,606	Ps. 3,728	Ps. (6,412)	Ps. 23,269	Ps. 9,688	Ps. 32,957
3,728	(3,728)				
(760)			(760)	(487)	(1,247)
	3,100	(343)	2,757	1,594	4,351
13,574	3,100	(6,755)	25,266	10,795	36,061
3,100	(3,100)				
(430)			(430)	(694)	(1,124)
			1,803	5,603	7,406
	3,302	137	3,439	2,890	6,329
16,244	3,302	(6,618)	30,078	18,594	48,672
3,302	(3,302)				
(551)			(551)	(292)	(843)
				590	590
				(5,938)	(5,938)
	5,831	(34)	5,797	3,767	9,564
Ps. 18,995	**Ps. 5,831**	**Ps. (6,652)**	**Ps. 35,324**	**Ps. 16,721**	**Ps. 52,045**

For the years ended December 31, 2004, 2003 and 2002.
Amounts expressed in millions of US dollars ($) and in millions of constant Mexican pesos (Ps.) as of December 31, 2004.

NOTE 1. ACTIVITIES OF THE COMPANY.

Fomento Económico Mexicano, S.A. de C.V. ("FEMSA") is a Mexican holding company. The principal activities of FEMSA and its subsidiaries (the "Company"), as an economic unit, are carried out by operating subsidiaries and grouped under direct and indirect holding company subsidiaries (the "Subholding Companies") of FEMSA. The following is a description of such activities, together with the ownership interest in each Subholding Company:

SUBHOLDING COMPANY	% OWNERSHIP	ACTIVITIES
Coca-Cola FEMSA, S.A. de C.V. and Subsidiaries ("Coca-Cola FEMSA")	45.7% (53.6% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Venezuela, Colombia, Brazil and Argentina. The Coca-Cola Company indirectly owns 39.6% of Coca-Cola FEMSA's capital stock. In addition, shares representing 14.7% of Coca-Cola FEMSA's capital stock are listed on the Bolsa Mexicana de Valores, S.A. de C.V. ("BMV") and The New York Stock Exchange, Inc. ("NYSE").
FEMSA Cerveza, S.A. de C.V. and Subsidiaries ("FEMSA Cerveza")	100%	Production, distribution and marketing of beer through its principal operating subsidiary, Cervecería Cuauhtémoc Moctezuma, S.A. de C.V., which operates six breweries throughout Mexico and produces and distributes 15 different brands of beer, of which the five most important are: Tecate, Sol, Carta Blanca, Superior and XX Lager.
FEMSA Comercio, S.A. de C.V. and Subsidiaries ("FEMSA Comercio")	100%	Operation of a chain of convenience stores under the trade name "Oxxo."
FEMSA Empaques, S.A. de C.V. and Subsidiaries ("FEMSA Empaques")	100%	Production and distribution of packaging materials primarily to the beverage industry, including products such as labels, plastic cases, coolers and commercial refrigeration equipment.
FEMSA Logística, S.A. de C.V. and Subsidiaries ("FEMSA Logística")	100%	Transportation, logistics and maintenance services to FEMSA's subsidiaries and to third parties.

On December 20, 2004, FEMSA Empaques spun-off its operations that engage in the production of aluminum beverage cans, caps and glass beverage bottles, which are now consolidated in FEMSA Cerveza, while the rest of the operations remain at FEMSA Empaques. Therefore, the information relating to FEMSA Cerveza and FEMSA Empaques for the years ended December 31, 2003 and 2002, has been reclassified in order to make it comparable to the presentation for 2004.

NOTE 2. ACQUISITION OF FEMSA CERVEZA MINORITY INTEREST.

On August 31, 2004, the Company consummated a series of transactions with Interbrew S.A. ("Interbrew"), Labatt Brewing Company Limited ("Labatt") and certain of their affiliates pursuant to a series of agreements entered into on May 24, 2004 to terminate the existing arrangements among affiliates of FEMSA and Interbrew. As a result of these transactions:

- FEMSA indirectly owns 100% of FEMSA Cerveza; and
- Interbrew indirectly owns 100% of Labatt USA LLC and Latrobe Brewing Company LLC (together, "Labatt USA"), its distribution subsidiary in the United States of America.

The Company paid Interbrew Ps. 14,530 ($1,245) and incurred transaction costs of Ps. 221, which consisted of financial, advisory and legal fees, capitalized as adjustments to the purchase price. The transaction was financed as follows:

- $295 of cash on hand;
- bridge loans to FEMSA, consisting of a $250 loan and a Ps. 2,888 loan;
- Ps. 2,500 in certificados bursátiles issued by FEMSA and guaranteed by FEMSA Cerveza, of which Ps. 1,250 have a maturity of five years and the remaining Ps. 1,250 have a maturity of four years;
- Ps. 1,763 unsecured term loan to FEMSA with a maturity of four years; and
- Ps. 959 of an unsecured term loan of Ps. 1,155 to FEMSA Cerveza with a maturity of five years.

The Company accounted for the acquisition by the purchase method, which consists in the determination of the fair value of the assets acquired and the liabilities assumed. As a result, the Company identified two intangible assets with indefinite lives: trademarks and beer distribution rights. No goodwill was recognized as a result of the acquisition.

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

Cash and cash equivalents	Ps.	887
Other current assets		2,508
Property, plant and equipment		4,797
Other assets		1,489
Trademarks and beer distribution rights		9,159
Total assets acquired		18,840
Short-term debt		323
Other current liabilities		964
Long-term debt		1,825
Other long-term debt		977
Total liabilities assumed		4,089
Net assets acquired	Ps.	14,751

NOTE 3. ACQUISITION OF PANAMERICAN BEVERAGES, INC.

On May 6, 2003, Coca-Cola FEMSA acquired 100% of the outstanding stock of Panamerican Beverages, Inc. ("Panamco") for Ps. 31,050. As part of the acquisition, the Company assumed Ps. 9,557 of net debt and incurred transaction costs of Ps. 408, which consisted of financial, advisory and legal fees, capitalized as adjustments to the purchase price.

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

The transaction was financed with an equity contribution from FEMSA of Ps. 2,923, an exchange of The Coca-Cola Company's equity interests in Panamco valued at Ps. 7,406 for new shares of Coca-Cola FEMSA, cash on hand of Ps. 2,966 and additional indebtedness of Ps. 18,163.

Coca-Cola FEMSA's capital was increased through an issuance of 421.374 million shares. Of these shares, 117.328 million shares were subscribed by FEMSA and 304.046 million shares were subscribed by The Coca-Cola Company at a price of 2.216 US dollars per share.

Because The Coca-Cola Company's contribution to Coca-Cola FEMSA was greater than FEMSA's contribution, FEMSA's ownership in Coca-Cola FEMSA decreased from 51.0% to 45.7% of its outstanding capital stock and from 63.0% to 53.6% of its capital stock with full voting rights.

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

The results of Panamco's operations have been included in the consolidated financial statements since the date of acquisition, as a result of which the consolidated income statements and the consolidated statements of changes in financial position for the year ended December 31, 2004 are not comparable with those for the years ended December 31, 2003 and 2002.

The Company accounted for the acquisition by the purchase method and allocated the purchase price to the fair value of the assets acquired and the liabilities assumed. The fair value adjustments include recognition of an intangible asset with an indefinite life for a total amount of Ps. 35,801 included in the financial statements as "Rights to produce and distribute Coca-Cola trademark products" and the reduction to fair value of certain assets consisting primarily of facilities that the Company considered non-strategic as well as the elimination of certain intangible assets that were generated from acquisitions previously effected by Panamco.

Note 4. Basis of Presentation.

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in Mexico ("Mexican GAAP"), which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"), as further explained in Note 26. A reconciliation from Mexican GAAP to US GAAP is included in Note 27.

The consolidated financial statements are stated in millions of Mexican pesos ("Ps."). The translations of Mexican pesos into US dollars ("$") are included solely for the convenience of the reader, using the exchange rate in effect at the date of the most recent balance sheet presented.

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

Certain amounts in the consolidated financial statements as of December 31, 2003 and 2002 have been reclassified to conform to the presentation of the consolidated financial statements as of December 31, 2004 and therefore the amounts differ from those originally presented. These reclassifications consist of the following:

- Deferred recoverable income tax:
  In 2003, the deferred income tax assets corresponding to tax loss carryforwards generated by the Brazilian and Colombian operations, in the aggregate amount of Ps. 1,355 were presented as offsetting the deferred income tax liability of other operations. In 2004, the deferred income tax assets related to the Brazilian and Colombian operations are presented separately as a long-term asset, as recoverability varies in the different tax jurisdictions.

- Additional pension labor liability:
  During 2003, the additional pension labor liability in excess of the unrecognized net transition obligation was recorded as an intangible asset. This excess should have been recorded in other comprehensive income. The recognition of the additional labor liability of Ps. 142, net of the related deferred income tax effect of Ps. 47, is recognized in other comprehensive income.

- Pension plan cost for the year:
  In 2004, the total cost related to the Company's pension and retirement plans, seniority premiums and post-retirement medical service liabilities is recognized within operating costs and expenses, in accordance with the new requirements of Mexican GAAP under Bulletin D-3 "Obligaciones laborales" (Labor obligations) ("D-3"), which clarifies the accounting treatment for the cost for the year. In prior years, the Company included the related interest cost as a component of net interest expense, and the amortization of the net transition obligation and actuarial gains or losses, as a component of other expenses. The amounts reclassified to operating costs and expenses amounted to Ps. 120 and Ps. 97 for the years ended December 31, 2003 and 2002, respectively, of which Ps. 88 and Ps. 66 correspond to interest expenses, and Ps. 32 and Ps. 31 correspond to other expenses.

- Operating expenses of Coca-Cola FEMSA:
  During 2004, some of Coca-Cola FEMSA's acquired operations changed their classification criteria for recording certain operating expenses from administrative to selling expenses. The amount reclassified in 2003 operating expenses was Ps. 439.

During interim periods of 2004, the Company did not reclassify any of the above mentioned items, therefore, the Company's interim financial statements were presented using the same classification criteria as in the Company's financial statements for the year ended December 31, 2003. Additionally, during the interim periods of 2004, the Company classified as extraordinary items: a favorable final ruling from a Mexican federal court allowing Coca-Cola FEMSA to deduct losses arising from a sale of shares during 2002 and the effect of the change in the tax criteria for the deduction of certain assets of the soft drinks industry. In the financial statements for the year ended December 31, 2004, these items were classified as taxes in the income statement.

NOTE 5. FOREIGN SUBSIDIARY INCORPORATION.

The accounting records of foreign subsidiaries are maintained in the currency of the country where they are located and in accordance with the accounting principles generally accepted in each country. For incorporation into the FEMSA consolidated financial statements, they are adjusted to Mexican GAAP and restated to the purchasing power of the local currency applying inflation factors of the country of origin and are subsequently translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

The variation in the net investment in foreign subsidiaries generated by exchange rate fluctuations is included in the cumulative translation adjustment and is recorded directly in stockholders' equity as part of other comprehensive income.

When the Company designates a foreign subsidiary net investment as an economic hedge of its own acquisition financing, the accounting treatment for the integral result of financing is as follows:

- The foreign exchange gain or loss is recorded as part of the cumulative translation adjustment to the extent the net investment in the foreign subsidiary covers the debt, net of taxes. The foreign exchange gain or loss associated with any unhedged portion of such debt is recorded in the integral result of financing; and
- The monetary position result is computed using the inflation factors of the country in which the acquired subsidiary is located to the extent the net investment in that subsidiary covers the debt. The monetary position result corresponding to the unhedged portion of such debt is calculated using the inflation factors of the country of the company that contracts the financing. The total effect is recorded in the integral result of financing.

When the Company has not designated an economic hedge, the foreign exchange gain or loss and gain or loss on monetary position are recorded in the integral result of financing.

The monetary position result and exchange gain or loss generated by foreign subsidiaries, such as the intercompany foreign currency denominated balances that are considered to be of a long-term-investment nature (that is, settlement is not planned or anticipated in the foreseeable future), are reflected in cumulative translation adjustment in stockholders' equity.

As of the date of these consolidated financial statements, the Company has not designated any investment in a foreign subsidiary as an economic hedge.

On July 1, 2002, due to the continuing difficult economic situation in Argentina, the uncertainty with respect to the period of recovery, and the instability of the exchange rate, the Company performed a valuation of its investment in Coca-Cola FEMSA de Buenos Aires, S.A. ("Coca-Cola FEMSA Buenos Aires") based on market price value multiples of comparable businesses. The valuation resulted in the recognition of an impairment of goodwill of Ps. 477, which was recorded in the income statement. As a result, the net investment in Coca-Cola FEMSA Buenos Aires is no longer considered to be an economic hedge of the liabilities denominated in US dollars incurred to acquire Coca-Cola FEMSA Buenos Aires.

In February 2003, the Venezuelan government implemented a new exchange control regime, and fixed the exchange rate of 1,600 Venezuelan bolivars per US dollar. Due to the uncertainties regarding the availability of US dollars at the official rate, the Company used the last available market-closing rate of 1,853 bolivars per US dollar to translate the financial statements for its Venezuelan subsidiary. On February 6, 2004, a 20% devaluation of the Venezuelan bolivar was officially announced, with a new official exchange rate being set at 1,920 Venezuelan bolivars per US dollar. This exchange rate remains in effect as of the date of these consolidated financial statements.

NOTE 6. SIGNIFICANT ACCOUNTING POLICIES.

The Company's accounting policies are in accordance with Mexican GAAP, which require that the Company's management make certain estimates and use certain assumptions to determine the valuation of various items included in the consolidated financial statements. The Company's management believes that the estimates and assumptions used were appropriate as of the date of these consolidated financial statements.

The significant accounting policies are as follows:

A) RECOGNITION OF THE EFFECTS OF INFLATION:

The recognition of the effects of inflation in the financial information consists of:

- Restating non-monetary assets such as inventories and fixed assets, including related costs and expenses when such assets are consumed or depreciated;
- Restating capital stock, additional paid-in capital and retained earnings by the amount necessary to maintain the purchasing power equivalent in Mexican pesos on the dates such capital was contributed or income generated, through the use of inflation factors;
- Including in stockholders' equity the cumulative effect of holding non-monetary assets, which is the net difference between changes in the replacement cost of non-monetary assets and adjustments based upon inflation factors; and
- Including in the cost of financing the purchasing power gain or loss from holding monetary items.

The Company restates its consolidated financial statements in currency of constant purchasing power by applying inflation factors of the country of origin and the exchange rate in effect at the date of the most recent balance sheet presented.

B) CASH AND CASH EQUIVALENTS:

Cash consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed-rate investments with brokerage houses valued at the quoted market prices with original maturities of three months or less.

C) INVENTORIES AND COST OF SALES:

The value of inventories is adjusted to replacement cost, without exceeding market value. Advances to suppliers to purchase raw materials and spare parts are included in the inventory account and are restated by applying inflation factors, considering their average age.

Cost of sales is determined based on replacement cost at the time of sale. Cost of sales includes expenses related to raw materials used in the production process, labor (wages and other benefits), depreciation of production facilities and equipment and other costs including fuel, electricity, breakage of returnable bottles in the production process, equipment maintenance, inspection and inter- and intra-plant transfer costs.

D) PREPAID EXPENSES:

These represent payments for services that will be received over the next 12 months. Prepaid expenses are recorded at historical cost and recognized in the income statement when the services or benefits are received. Prepaid expenses principally consist of advertising, promotional and leasing expenses.

Advertising costs consist of television and radio advertising airtime paid in advance, which are generally amortized over a 12-month period based on the transmission of the television and radio spots. The related production costs are recognized in the results of operations the first time the advertising is transmitted.

Promotional costs are expensed as incurred, except for those promotional costs related to the launching of new products or presentations. Those costs are recorded as prepaid expenses and amortized over the period during which they are estimated to increase sales of the related products or presentations to normal operating levels, which is generally one year.

E) BOTTLES AND CASES:

Bottles and cases are recorded at acquisition cost and restated to their replacement cost. FEMSA Cerveza classifies bottles and cases as inventories, and Coca-Cola FEMSA classifies them as fixed assets.

There are two types of returnable bottles and cases:

- Those that are in the Company's control in its facilities, which are referred to as bottles and cases in plant and distribution centers; and
- Those that have been placed in the hands of customers, which are referred to as bottles and cases in the market.

For financial reporting purposes, breakage of returnable bottles and cases in plant and distribution centers is recorded as an expense as it is incurred. For the years ended December 31, 2004, 2003 and 2002, breakage expense amounted to Ps. 591, Ps. 475 and Ps. 376, respectively.

FEMSA Cerveza's bottles and cases in the market are recognized as assets and are subject to an agreement with a retailer pursuant to which FEMSA Cerveza retains ownership. These bottles and cases are maintained as assets and monitored by sales personnel during their periodic visits and if any breakage is identified is charged to the retailer. Bottles and cases that are not subject to such agreements are expensed when placed in the hands of retailers. Until 2004, for tax purposes, the cost of the bottles was deducted at the time of purchase. As of January 1, 2005, FEMSA Cerveza decided to change the tax criteria for bottles deduction, considering them as a fixed asset and computing depreciation using the straight-line method at a rate of 10% per year. This change does not impact the total amount of taxes, but does generate surcharges. At December 31, 2004, FEMSA Cerveza recorded a tax provision of Ps. 117 in the income statement, which is the estimated amount to be paid in 2005 for surcharges.

Coca-Cola FEMSA's bottles and cases in the market and for which a deposit from customers has been received are presented net of such deposits, and the difference between the cost of these assets and the deposits received is amortized according to their useful lives. The bottles and cases for which no deposit has been received, which represent most of the bottles and cases placed in the market, are expensed when placed in the hands of customers. Depreciation is computed only for tax purposes using the straight-line method at a rate of 10% per year.

The Company estimates that breakage expense of returnable bottles and cases in plant and distribution centers is similar to the depreciation calculated on an estimated useful life of approximately: five years for beer bottles, four years for soft drinks returnable glass bottles and plastic cases, and one year for soft drinks returnable plastic bottles.

F) INVESTMENTS IN SHARES:

Investments in shares of associated companies are initially recorded at their acquisition cost and subsequently valued using the equity method. Investments in affiliated companies in which the Company does not have significant influence are recorded at acquisition cost and are adjusted to market value if they have an observable market value or based upon the inflation factors of the country of origin, with such adjustments reflected in the income statement.

G) PROPERTY, PLANT AND EQUIPMENT:

These assets are initially recorded at their cost of acquisition and/or construction. Property, plant and equipment of domestic origin, except bottles and cases of Coca-Cola FEMSA (see Note 6 E), are restated by applying inflation factors. Imported equipment is restated by applying inflation factors of the country of origin and then translated using the exchange rate in effect at the date of the most recent balance sheet presented.

Depreciation is computed using the straight-line method, based on the value of the restated assets reduced by their residual values. The Company, together with independent appraisers, estimates depreciation rates, considering the estimated remaining useful lives of the assets.

The estimated useful lives of the main assets are as follows:

	Years
Buildings and construction	40–50
Machinery and equipment	12–20
Distribution equipment	10–12
Refrigeration equipment	4–5
Information technology equipment	3–4

H) OTHER ASSETS:

These assets represent payments whose benefits will be received in future years and consist of the following:

- Agreements with customers for the right to sell and promote the Company's products during certain periods of time, which are considered monetary assets and amortized under two methods, in accordance with the terms of such agreements:
  - Actual volume method, which amortizes the proportion of the volume actually sold to the retailer over the volume target (approximately 80% of the agreements of FEMSA Cerveza are amortized on this basis); and
  - Straight-line method, which amortizes the asset over the life of the contract (the remaining 20% of the agreements of FEMSA Cerveza and 100% of the agreements of Coca-Cola FEMSA are amortized on this basis).

  In addition, for agreements amortized based on the actual volume method, the Company periodically compares the amortization calculated based on the actual volume method against the amortization that would have resulted under the straight-line method and records a provision to the extent that the recorded amortization is less than what would have resulted under the straight-line method. During the years ended December 31, 2004, 2003 and 2002, the amortization reducing net sales amounted to Ps. 1,079, Ps. 1,110 and Ps. 1,019, respectively.

- Leasehold improvements, which are restated by applying inflation factors, are amortized using the straight-line method, in accordance with the terms of the lease contracts.

I) INTANGIBLE ASSETS:

These assets represent payments whose benefits will be received in future years. Beginning in 2003, the Company applies Bulletin C-8, "Activos Intangibles" (Intangible Assets) ("C-8"), which establishes that project development costs should be capitalized if they fulfill the criteria established for recognition as assets. Additionally, C-8 requires identifying all intangible assets to reduce as much as possible the goodwill associated with business acquisitions. Prior to 2003, the excess of the purchase price over the fair value of the net assets acquired was considered to be goodwill. With the adoption of C-8, the Company considers the goodwill paid in acquisitions prior to the date of application of this bulletin as the rights to produce and distribute Coca-Cola trademarks. The Company separates intangible assets between those with a finite useful life and those with an indefinite useful life, in accordance with the period over which the Company expects to receive the benefits.

Intangible assets with finite useful lives are amortized and consist of:

- Start-up expenses, which represent costs incurred prior to the opening of an Oxxo store, including rent, permits and licenses. Such amounts are restated applying inflation factors and are amortized on a straight-line basis in accordance with the terms of the lease contract; and
- Information technology and management systems costs, which are incurred during the development stage are capitalized in accordance with C-8. Such amounts are restated applying inflation factors and are amortized using the straight-line method over four years. Expenses that do not fulfill the requirements for capitalization, such as research expenses, are expensed as incurred.

Intangible assets with indefinite lives are not amortized, but are periodically subject to an impairment test and consist of:

- Coca-Cola FEMSA's rights to produce and distribute Coca-Cola trademark products in the territories acquired. These rights are contained in agreements that are the standard contracts that The Coca-Cola Company enters into with bottlers outside the United States of America for the sale of concentrates for certain Coca-Cola trademark beverages. The most significant bottler agreements have terms of 10 years. The bottler agreements are automatically renewable for 10-year terms, subject to non-renewal by either party. The agreements are recorded in the functional currency of the subsidiary in which the investment was made and are restated by applying inflation factors of the country of origin and using the exchange rate in effect at the date of the most recent balance sheet presented;
- Trademarks and distribution rights, recognized as a result of the acquisition of the 30% of FEMSA Cerveza (see Note 2) and payments made by FEMSA Cerveza to concessionaries in the acquisition of the franchise previously granted. These assets are restated based on the inflation factors; and
- Trademark rights, leasing administration rights and industrial property rights paid by FEMSA Comercio in the acquisition of a convenience store chain.

Goodwill represents the difference between the price paid and the fair value of the shares and/or net assets acquired that was not assigned directly to an intangible asset. Goodwill is recorded in the functional currency of the subsidiary in which the investment was made and is restated by applying inflation factors of the country of origin and using the exchange rate in effect at the date of the most recent balance sheet presented. Goodwill is amortized over a period of no more than 20 years.

J) IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS:

In accordance with new Bulletin C-15, "Deterioro en el Valor de los Activos de Larga Duración y su Disposición" (Impairment in the Value of Long-Lived Assets and their Disposal) ("C-15"), the Company reviews the carrying value of its long-lived assets for impairment and determines whether an impairment exists, by comparing estimated discounted future cash flows to be generated by those assets with their carrying value.

For long-lived assets, such as property, plant and equipment, other assets and identifiable intangible assets, the Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable through their expected future cash flows.

For goodwill, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of the reporting unit exceeds its implied fair value.

If such assets are considered to be impaired, the impairment charge is recognized in other expenses.

K) PAYMENTS FROM THE COCA-COLA COMPANY:
The Coca-Cola Company participates in certain advertising and promotional programs as well as in Coca-Cola FEMSA's refrigeration equipment investment program. The contributions received for advertising and promotional incentives are included as a reduction of selling expenses. The contributions received for refrigeration equipment investment program are recorded as a reduction of the investment in refrigeration equipment. The contributions received were Ps. 920, Ps. 1,263 and Ps. 793 during the years ended December 31, 2004, 2003 and 2002, respectively.

L) LABOR LIABILITIES:
Labor liabilities include obligations for pension and retirement plans, seniority premiums and post-retirement medical services, based on actuarial calculations by independent actuaries, using the projected unit credit method. These liabilities are considered to be non-monetary and are restated using long-term assumptions. The cost for the year of labor liabilities is charged to income from operations.

Unamortized prior service costs are recorded over the period during which the employees will receive the benefits of the plan, which in the case of pension and retirement plans and seniority premiums is 14 years and for post-retirement medical services is 20 years, both since 1996.

Certain subsidiaries of the Company have established funds for the payment of pension benefits and post-retirement medical services through irrevocable trusts with the employees as beneficiaries.

Severance indemnities are charged to expenses on the date when a decision to retire personnel under a formal program or for specific causes is taken. The severance payments resulting from the Company's reduction of personnel, as a result of the restructuring of certain areas, are included in other expenses, net. During the years ended December 31, 2004, 2003 and 2002, these payments amounted to Ps. 156, Ps. 106 and Ps. 186, respectively.

M) REVENUE RECOGNITION:
Revenue is recognized in accordance with stated shipping terms, as follows:
- For domestic sales, upon delivery to the customer and once the customer has taken ownership of the goods (FOB destination). As of December 31, 2004, 2003 and 2002, domestic revenues represented approximately 97% of total consolidated revenues. Domestic revenues are defined as the sales generated by the Company for sales realized in the country where the subsidiaries operate; and
- For exports sales, upon shipment of goods to customers (FOB shipping point) and transfer of ownership and risk of loss.

Net sales reflect units delivered at list prices reduced by promotional allowances, discounts and the amortization of the agreements with customers to obtain the rights to sell and promote the products of the Company.

N) OPERATING EXPENSES:
Administrative expenses include labor costs (salaries and other benefits) for employees not directly involved in the sale of the Company's products, professional services fees, depreciation of office facilities and amortization of capitalized information technology system implementation costs.

Selling expenses include:
- Distribution: labor costs (salaries and other benefits), outbound freight costs, warehousing costs of finished products, breakage for returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. During the years ended December 31, 2004, 2003 and 2002, these distribution costs amounted to Ps. 8,354, Ps. 7,294 and Ps. 4,349, respectively;
- Sales: labor costs (salaries and other benefits) and sales commissions paid to sales personnel; and
- Marketing: labor costs (salaries and other benefits), promotions and advertising costs.

O) INCOME TAX, TAX ON ASSETS AND EMPLOYEE PROFIT SHARING:
Income tax and employee profit sharing are charged to results as they are incurred. Deferred income tax assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits from which there is uncertainty as to their realizability. Deferred employee profit sharing is derived from temporary differences between the accounting result and income for employee profit sharing purposes and is recognized only when it can be reasonably assumed that the temporary differences will generate a liability or benefit, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

The tax on assets paid that is expected to be recovered is recorded as a reduction of the deferred tax liability.

The balance of deferred taxes is comprised of monetary and non-monetary items, based on the temporary differences from which it is derived. Deferred taxes are classified as a long-term asset or liability, regardless of when the temporary differences are expected to reverse.

The deferred tax provision to be included in the income statement is determined by comparing the deferred tax balance at the end of the year to the balance at the beginning of the year, excluding from both balances any temporary differences that are recorded directly in stockholders' equity. The deferred taxes related to such temporary differences are recorded in the same stockholders' equity account.

FEMSA has received authorization from the Secretaría de Hacienda y Crédito Público ("SHCP") to prepare its income tax and tax on assets returns on a consolidated basis, which includes the proportional taxable income or loss of its Mexican subsidiaries, which is limited, through 2004 to 60% of the stockholders' participation. Beginning in 2005, the Company would include 100% of its stockholders' participation of the taxable income or loss of its Mexican subsidiaries. The provisions for income taxes of the foreign countries have been determined on the basis of the taxable income of each individual company.

P) INTEGRAL RESULT OF FINANCING:
The integral result of financing includes:

- Interest: interest income and expenses are recorded when earned or incurred, respectively.
- Foreign Exchange Gains and Losses: transactions in foreign currencies are recorded in local currencies using the exchange rate applicable on the date they occur. Assets and liabilities in foreign currencies are adjusted using the exchange rate in effect at the date of the most recent balance sheet presented, recording the resulting foreign exchange gain or loss directly in the income statement, except for any foreign exchange gain or loss from financing obtained for the acquisition of foreign subsidiaries that are considered to be an economic hedge (see Note 5).
- Gain (Loss) on Monetary Position: this represents the result of the effects of inflation on monetary items. The gain (loss) on monetary position is computed by applying inflation factors of the country of origin to the net monetary position at the beginning of each month, excluding the financing contracted for the acquisition of any foreign subsidiaries that are considered to be an economic hedge (see Note 5). The gain (loss) on monetary position of foreign subsidiaries is translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

Q) FINANCIAL INSTRUMENTS:
The Company frequently enters into financial instruments to manage the financial risks associated with its operations. If the instrument is used to manage the risk related with the Company's operations, the effect is recorded in cost of sales and in operating expenses, depending on the related instrument. If the instrument is used to manage the risks related with its financing operations, the effect is recorded in interest expense or in the foreign exchange gain or loss, depending on the related instrument.

Financial instruments entered into for hedging purposes are valued using the same valuation criteria applied to the hedged asset or liability. Additionally, financial instruments entered into for purposes other than hedging the operations of the Company are valued at fair market value, and are recorded in the balance sheet. The difference between the financial instrument's initial value and fair market value is recorded in the income statement.

R) CUMULATIVE RESULT OF HOLDING NON-MONETARY ASSETS:

This represents the sum of the difference between book values and restatement values, as determined by applying inflation factors to non-monetary assets such as inventories and fixed assets, and their effects on the income statement when the assets are consumed or depreciated, net of the corresponding deferred income tax effect.

S) COMPREHENSIVE INCOME:

Comprehensive income is comprised of the net income for the year and other comprehensive income items such as the translation adjustment, the result of holding non-monetary assets and the additional labor liability over the unrecognized net transition obligation and is presented in the consolidated statements of changes in stockholders' equity. The accumulated balances are as follows:

	2004	2003	2002
Retained earnings from prior years	**Ps. 18,995**	Ps. 16,244	Ps. 13,574
Net majority income	**5,831**	3,302	3,100
Cumulative other comprehensive income:			
Cumulative result of holding non-monetary assets	**(5,799)**	(5,852)	(6,303)
Cumulative translation adjustment	**(769)**	(689)	(452)
Additional labor liability over unrecognized net transition obligation	**(84)**	(77)	—
	(6,652)	(6,618)	(6,755)
	Ps. 18,174	Ps. 12,928	Ps. 9,919

T) PROVISIONS:

Provisions are recognized for obligations that result from a past event that will likely result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant.

U) ISSUANCES OF SUBSIDIARY STOCK:

The Company recognizes issuances of a subsidiary's stock as a capital transaction, in which the difference between the book value of the shares issued and the amount contributed by the minority interest holder or a third party is recorded as additional paid-in capital.

NOTE 7. ACCOUNTS RECEIVABLE.

	2004	2003
Trade	**Ps. 3,721**	Ps. 3,391
Allowance for doubtful accounts	**(417)**	(394)
Notes receivable	**462**	666
The Coca-Cola Company	**231**	177
Insurance claims	**42**	39
Loans to employees	**37**	32
Travel advances to employees	**28**	30
Rent of warehouses	**3**	10
Other	**408**	426
	Ps. 4,515	Ps. 4,377

The changes in the allowance for doubtful accounts are as follows:

	2004	2003	2002
Initial balance	**Ps. 394**	Ps. 308	Ps. 247
Acquisition of Panamco	**—**	77	—
Provision for the year	**187**	154	133
Write-off of uncollectible accounts	**(141)**	(132)	(59)
Restatement of the initial balance	**(23)**	(13)	(13)
Ending balance	**Ps. 417**	Ps. 394	Ps. 308

NOTE 8. INVENTORIES.

		2004		2003
Finished products	Ps.	2,598	Ps.	2,474
Raw materials		3,302		2,715
Bottles and cases of FEMSA Cerveza		1,368		1,327
Spare parts		596		418
Work in process		183		189
Advances to suppliers		156		348
Advertising and promotional materials		6		26
Allowance for obsolescence		(200)		(213)
	Ps.	8,009	Ps.	7,284

NOTE 9. PREPAID EXPENSES.

		2004		2003
Advertising and promotional expenses	Ps.	328	Ps.	412
Agreements with customers		105		138
Leases		72		48
Insurance		12		13
Other		44		52
	Ps.	561	Ps.	663

The advertising and promotional expenses recorded in the income statement for the years ended December 31, 2004, 2003 and 2002 amounted to Ps. 3,048, Ps. 2,769 and Ps. 2,295, respectively.

NOTE 10. INVESTMENTS IN SHARES.

COMPANY	*Ownership*		2004		2003
FEMSA Cerveza:					
Associated companies of FEMSA Cerveza [1]	Various	Ps.	145	Ps.	121
Río Blanco Trust (waste water treatment plant) [1]	33.71%		131		122
Labatt USA [1]	30.00%		—		171
Other [2]	Various		17		27
Coca-Cola FEMSA:					
Industria Envasadora de Querétaro, S.A. de C.V. (“IEQSA”) [1]	33.68%		144		130
Molson, Inc. (“Molson”) [3]	0.74%		89		269
Beta San Miguel, S.A. de C.V. (“Beta San Miguel”) [2]	2.54%		62		32
Complejo Industrial Can, S.A. (“CICAN”) [1]	48.10%		35		53
Tapón Corona de Colombia, S.A. (“Tapón Corona”) [1]	40.00%		24		24
Other [2]	Various		64		10
Other investments [2]	Various		48		52
		Ps.	759	Ps.	1,011

Valuation method:
(1) Equity method.
(2) Restated acquisition cost (there is no readily determinable market value).
(3) Market value.

NOTE 11. PROPERTY, PLANT AND EQUIPMENT.

		2004		2003
Land	Ps.	5,523	Ps.	5,618
Buildings, machinery and equipment		62,800		61,541
Accumulated depreciation		(29,321)		(27,642)
Refrigeration equipment		3,096		2,918
Accumulated depreciation		(1,421)		(1,201)
Construction in progress		1,768		1,836
Bottles and cases of Coca-Cola FEMSA		1,031		1,043
Assets stated at realizable value		815		701
	Ps.	44,291	Ps.	44,814

The Company has identified fixed assets that are not strategic to the current and future operations of the business and are available for sale, consisting mainly of land, buildings and equipment for disposal, in accordance with an approved program for the disposal of certain investments. Such assets, which are not in use and have been valued at their estimated realizable value without exceeding their restated acquisition cost, are as follows:

		2004		2003
FEMSA and others	Ps.	294	Ps.	366
FEMSA Cerveza		264		335
Coca-Cola FEMSA		257		—
	Ps.	815	Ps.	701
Land	Ps.	495	Ps.	476
Buildings		263		179
Equipment		57		46
	Ps.	815	Ps.	701

As a result of the sale of land, the Company recognized a gain of Ps. 28, Ps. 312 and Ps. 141 for the years ended December 31, 2004, 2003 and 2002, respectively. The real estate market has been affected by the economic situation in Mexico, and as a result completion of the disposal program has taken more time than originally expected. However, management has decided to continue with the disposal program and its efforts to recover the investment in such assets. Those fixed assets recorded at their estimated realizable value are considered monetary assets on which a loss on monetary position is computed and recorded in the income statement.

NOTE 12. INTANGIBLE ASSETS.

	2004	2003
UNAMORTIZED INTANGIBLE ASSETS:		
Coca-Cola FEMSA:		
Rights to produce and distribute Coca-Cola trademark products:		
Territories of Panamco (see Note 3)	Ps. 35,801	Ps. 35,154
Buenos Aires, Argentina	195	199
Tapachula, Chiapas	118	118
FEMSA Cerveza:		
Trademarks and distribution rights (see Note 2)	9,372	128
FEMSA Comercio:		
Acquisition of convenience store chain	105	—
FEMSA:		
Mundet trademark	145	145
AMORTIZED INTANGIBLE ASSETS:		
Cost of systems implementation	586	598
Start-up expenses	204	164
FEMSA's minority interest acquisition	187	201
Acquisition of convenience store chain	115	—
Other	17	—
	Ps. 46,845	Ps. 36,707

The changes in the carrying amount of amortized intangible assets are as follows:

	Investments		*Amortization*			*Estimated Amortization*
	Initial	*Additions*	*Initial*	*For the Year*	*Total*	*per Year*
2004:						
Cost of systems implementation	Ps. 736	Ps. 197	Ps. (138)	Ps. (209)	Ps. 586	Ps. 235
Start-up expenses	193	59	(29)	(19)	204	35
FEMSA's minority interest acquisition	278	—	(77)	(14)	187	14
Acquisition of convenience store chain	—	117	—	(2)	115	6
2003:						
Cost of systems implementation	417	319	(45)	(93)	598	
Start-up expenses	106	87	(15)	(14)	164	
FEMSA's minority interest acquisition	278	—	(62)	(15)	201	

NOTE 13. OTHER ASSETS.

	2004	2003
Agreements with customers	Ps. 2,857	Ps. 2,628
Leasehold improvements	2,131	1,700
Long-term accounts receivable	707	750
Additional labor liabilities (see Note 16)	260	409
Long-term prepaid advertising	146	184
Debt issuance costs	84	184
Recoverable taxes (see Note 24 A)	—	229
Other	365	437
	Ps. 6,550	Ps. 6,521

NOTE 14. BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND AFFILIATED COMPANIES.

The consolidated balance sheets and income statements include the following balances and transactions with related parties and affiliated companies:

BALANCES		2004		2003
Assets (accounts receivable)	Ps.	881	Ps.	812
Liabilities (suppliers and other liabilities)		1,361		822
Long-term debt with BBVA Bancomer, S.A. (1)		7,263		4,264

TRANSACTIONS		2004		2003		2002
Income:						
FEMSA Cerveza:						
Export sales to Labatt USA (2)	Ps.	919	Ps.	1,073	Ps.	964
Other revenues from affiliated companies		759		753		797
Sales of cans to IEQSA		487		357		389
Interest income related to short-term bank deposits at BBVA Bancomer, S.A. (1)		48		79		121
Expenses:						
Purchase of concentrate from The Coca-Cola Company		6,957		5,828		2,857
Purchase of sugar from Beta San Miguel		915		233		—
Purchase of baked goods and snacks from Grupo Industrial Bimbo, S.A. de C.V. (1)		737		614		503
Purchase of canned products from IEQSA and CICAN		470		292		271
Insurance premiums for policies with Grupo Nacional Provincial, S.A., Seguros Monterrey New York Life, S.A. and Fianzas Monterrey, S.A. (1)		217		154		166
Purchases of crown cap from Tapón Corona		195		118		—
Purchase of plastic bottles from Embotelladora del Atlántico, S.A. (formerly Complejo Industrial Pet, S.A.) (1)		148		137		123
Management fee and technical assistance paid to Labatt (2)		85		133		125
Interest expense related to long-term debt with BBVA Bancomer, S.A. (1)		404		50		7

(1) One or more members of our board of directors or senior management are members of the board of directors or senior management of the counterparties of these transactions.
(2) Labatt and Labatt USA were considered to be related parties until the date of acquisition of the 30% of FEMSA Cerveza previously owned by affiliates of Interbrew (see Note 2).

NOTE 15. BALANCES AND TRANSACTIONS IN FOREIGN CURRENCIES.

Assets, liabilities and transactions denominated in foreign currencies, other than the functional currencies of the reporting unit, translated into US dollars are as follows:

BALANCES		*Applicable Exchange Rate (1)*		*Short-Term*		*Long-Term*		*Total*
December 31, 2004:	Assets	11.1460	$	255	$	—	$	255
	Liabilities			449		903		1,352
December 31, 2003:	Assets	11.2350	$	149	$	—	$	149
	Liabilities			535		1,394		1,929

(1) Mexican pesos per one US dollar.

TRANSACTIONS		2004		2003		2002
Revenues	$	256	$	227	$	217
Expenses:						
Purchases of raw materials		351		284		229
Technical assistance fees		11		17		32
Interest and other		302		300		245
	$	664	$	601	$	506

As of February 11, 2005, the issuance date of these consolidated financial statements, the exchange rate was 11.1450 Mexican pesos per one US dollar, and the foreign currency position was similar to that as of December 31, 2004.

NOTE 16. LABOR LIABILITIES.

A) ASSUMPTIONS:

The 2004 and 2003 actuarial calculations for pension and retirement plans, seniority premiums and post-retirement medical service liabilities and the cost for the year were determined using the following long-term assumptions:

	Annual Discount Rate	*Salary Increase*	*Return on Assets*
Mexico	6.0%	2.0%	6.0%
Guatemala	4.5%	1.5%	— [(1)]
Nicaragua	4.5%	1.5%	— [(1)]
Costa Rica	4.5%	1.5%	4.5%
Colombia	4.5%	1.5%	— [(1)]
Brazil	4.5%	1.5%	4.5%
Measurement date: November 2004			

(1) No funding established for the payment of post-retirement obligations.

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) and the expectations of long-term returns of the actual investments of the Company. The operations in Panama, Venezuela and Argentina do not have post-retirement plans.

The annual growth rate for health care expenses is 2% in real terms, consistent with the historical average health care expense rate for the past 30 years and such rate is expected to remain consistent for the foreseeable future.

Based on these assumptions, the expected benefits to be paid in the following years are as follows:

	Pension and Retirement Plans	*Seniority Premiums*	*Post-retirement Medical Services*
2005	Ps. 192	Ps. 12	Ps. 37
2006	195	11	38
2007	198	13	39
2008	201	14	40
2009	205	14	41
2010 to 2014	1,121	105	218

B) BALANCES OF THE LIABILITIES:

	2004	2003
Pension and retirement plans:		
Vested benefit obligation	Ps. 1,743	Ps. 1,754
Non-vested benefit obligation	1,426	1,459
Accumulated benefit obligation	3,169	3,213
Excess of projected benefit obligation over accumulated benefit obligation	275	281
Projected benefit obligation	3,444	3,494
Pension plan funds at fair value	(1,855)	(1,777)
Unfunded projected benefit obligation	1,589	1,717
Unrecognized net transition obligation services	(295)	(383)
Unrecognized actuarial net loss	(72)	(250)
	1,222	1,084
Additional labor liability	350	525
Total	1,572	1,609
Seniority premiums:		
Vested benefit obligation	79	71
Non-vested benefit obligation	68	66
Accumulated benefit obligation	147	137
Excess of projected benefit obligation over accumulated benefit obligation	18	17
Unfunded projected benefit obligation	165	154
Unrecognized net transition obligation services	(14)	(15)
Unrecognized actuarial net loss	(12)	—
	139	139
Additional labor liability	37	26
Total	176	165
Post-retirement medical services:		
Vested benefit obligation	251	209
Non-vested benefit obligation	276	233
Accumulated benefit obligation	527	442
Medical services funds at fair value	(19)	(21)
Unfunded accumulated benefit obligation	508	421
Unrecognized post-retirement net transition obligation	(48)	(63)
Unrecognized actuarial net loss	(262)	(190)
Total	198	168
Total labor liabilities	Ps. 1,946	Ps. 1,942

The accumulated actuarial gains and losses were generated by the differences in the assumptions used for the actuarial calculations at the beginning of the year versus the actual behavior of those variables at the end of the year.

The projected benefit obligation in some subsidiaries was less than the accumulated benefit obligation reduced by the amount of the plan assets at fair value, resulting in an additional liability, which was recorded as an intangible asset included in other assets up to an amount of the unrecognized net transition obligation services (see Note 13) and the difference was recorded as other comprehensive income.

C) TRUST ASSETS:

The trust assets consist of fixed and variable return financial instruments, at market value. The trust assets are invested as follows:

	2004	2003
Fixed Return:		
Traded securities	24%	34%
Bank instruments	11%	11%
Federal government instruments	31%	30%
Variable Return:		
Publicly traded shares	34%	25%
	100%	100%

The Company has a policy of maintaining at least 30% of the trust assets in Mexican Federal Government instruments. Objective portfolio guidelines have been established for the remaining percentage, and investment decisions are made to comply with those guidelines to the extent that market conditions and available funds allow. The composition of the objective portfolio is consistent with the composition of the portfolios of the five largest international companies that manage long-term funds.

During 2004, the contributions to the pension plan and post-retirement medical services trust assets amounted to Ps. 125, and the Company estimates that the contributions during 2005 will reach Ps. 140.

The amounts and types of securities of the Company and related parties included in trust assets are as follows:

	2004	2003
Debt:		
Grupo Industrial Bimbo, S.A. de C.V. [1]	Ps. 10	Ps. 11
Coca-Cola FEMSA (Certificados bursátiles)	44	—
Capital:		
Grupo Financiero BBVA Bancomer, S.A. [1]	—	14
FEMSA (FEMSA UBD)	273	240

(1) One or more members of our board of directors or senior management are members of the board of directors or senior management of the counterparties of these transactions.

D) COST FOR THE YEAR:

	2004	2003	2002
Pension and retirement plans:			
Service cost	Ps. 105	Ps. 92	Ps. 79
Interest cost	190	169	141
Expected return on trust assets	(104)	(108)	(102)
Amortization of unrecognized transition obligation	21	21	21
Amortization of net actuarial loss (gain)	2	(2)	(4)
	214	172	135

		2004		2003		2002
Seniority premiums:						
Service cost		**19**		17		14
Interest cost		**9**		8		7
Amortization of unrecognized transition obligation		**2**		2		2
		30		27		23
Post-retirement medical services:						
Service cost		**15**		13		12
Interest cost		**27**		23		22
Expected return on trust assets		**(2)**		(2)		(2)
Amortization of unrecognized transition obligation		**5**		5		5
Amortization of net actuarial loss		**7**		6		8
		52		45		45
	Ps.	**296**	Ps.	244	Ps.	203

E) CHANGES IN THE BALANCE OF THE OBLIGATIONS:

		2004		2003
Pension and retirement plans:				
Initial balance	**Ps.**	**3,494**	Ps.	2,724
Panamco acquisition		**—**		496
Service cost		**105**		92
Interest cost		**190**		169
Actuarial loss (gain)		**(156)**		199
Benefits paid		**(189)**		(186)
Ending balance		**3,444**		3,494
Seniority premium:				
Initial balance		**154**		122
Panamco acquisition		**—**		30
Service cost		**19**		17
Interest cost		**9**		8
Actuarial loss (gain)		**12**		(2)
Benefits paid		**(29)**		(21)
Ending balance		**165**		154
Post-retirement medical services:				
Initial balance		**442**		380
Service cost		**15**		13
Interest cost		**27**		23
Actuarial loss		**77**		26
Benefits paid		**(34)**		—
Ending balance		**527**		442

F) CHANGES IN THE BALANCE OF THE TRUST ASSETS:

	2004	2003
Pension and retirement plans:		
Initial balance	Ps. 1,777	Ps. 1,710
Panamco acquisition	—	180
Actual return on trust assets in real terms	152	(81)
Contributions	93	64
Benefits paid	(167)	(96)
Ending balance	1,855	1,777
Post-retirement medical services:		
Initial balance	21	33
Actual return on trust assets in real terms	(1)	(6)
Contributions	33	22
Benefits paid	(34)	(28)
Ending balance	19	21

G) VARIATION IN HEALTH CARE ASSUMPTIONS:

The following table presents the impact in post-retirement medical service obligations and the expenses recorded in the income statement with a variation of 1% in the economic assumptions.

	Impact of changes in:	
	+ 1%	*–1%*
Post-retirement net transition obligation	Ps. 81	Ps. (65)
Cost for the year	7	(8)

NOTE 17. 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 FEMSA consolidated, at approximately 70% and 30%, respectively.

The qualitative objectives and special projects represent the remaining approximately 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

In addition, the Company provides a share compensation plan to certain key executives, consisting of an annual cash bonus to purchase FEMSA shares or options, based on the executive’s responsibility in the organization, their business’ EVA result achieved, and their individual performance. Such shares or options will be deposited in a trust, and the executives may access them one year after they are vested at 20% per year. 50% of Coca-Cola FEMSA’s annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded in income from operations and are paid in cash the following year. During the years ended December 31, 2004, 2003 and 2002, the bonus expense recorded in the income statement amounted to Ps. 633, Ps. 405 and Ps. 363, respectively.

All shares held by the trusts are considered outstanding for earnings per share computations and dividends on shares held by the trusts are charged to retained earnings.

NOTE 18. BANK LOANS AND NOTES PAYABLE.

As of December 31, 2004 and 2003, short-term debt consisted of the bridge loans incurred in connection with the acquisition of the 30% of FEMSA Cerveza and bank loans, the amounts and weighted average variable interest rates of which are as follows:

	% Interest Rate (1)		**2004**	*% Interest Rate* (1)		2003
Mexican pesos	**8.9%**	**Ps.**	**2,968**	6.2%	Ps.	985
US dollars	**1.9%**		**2,810**	2.5%		1,636
Argentine pesos	**5.4%**		**128**	—		—
Venezuelan bolivars	**11.0%**		**80**	—		—
		Ps.	**5,986**		Ps.	2,621

The following table presents long-term bank loans and notes payable, as well as their weighted average rates and derivative instruments contracted by the Company:

	% Interest Rate (1)		**2004**	*% Interest Rate* (1)		2003
FIXED INTEREST RATE						
US dollars:						
Yankee bonds	**7.9**	**Ps.**	**5,603**	7.9	Ps.	5,974
Bank loans	**3.5**		**260**	4.4		44
Capital leases	**5.4**		**168**	5.4		204
Private placement	**—**		**—**	9.4		1,181
Mexican pesos:						
Bank loans	**9.9**		**998**	9.0		1,052
Certificados bursátiles	**10.2**		**1,500**	10.2		1,578
Units of investment (UDIs)	**8.7**		**1,436**	8.7		1,492
VARIABLE INTEREST RATE						
US dollars:						
Bank loans	**2.9**		**2,598**	2.7		8,056
Syndicated loan	**2.7**		**1,672**	2.4		2,511
Capital leases	**10.1**		**24**	10.0		34
Mortgage loan	**—**		**—**	3.7		72
Mexican pesos:						
Bank loans	**9.3**		**13,889**	6.8		6,051
Certificados bursátiles	**9.3**		**11,000**	6.1		8,941
Colombian pesos:						
Notes	**10.1**		**677**	10.3		713
Long-term debt			**39,825**			37,903
Current maturities of long-term debt			**(3,540)**			(2,732)
		Ps.	**36,285**		Ps.	35,171

(1) Weighted average rate.

DERIVATIVE INSTRUMENTS	% Interest Rate [1]		2004	% Interest Rate [1]		2003
CROSS CURRENCY AND INTEREST RATE SWAPS						
Bank loans from Mexican pesos to US dollars:		**Ps.**	**—**		Ps.	1,180
Interest pay rate	**—**			4.4		
Interest receive rate	**—**			6.8		
Bank loans from US dollars to Mexican pesos:			**1,560**			—
Interest pay rate	**10.0**			—		
Interest receive rate	**2.9**			—		
INTEREST RATE SWAPS VARIABLE TO FIXED						
US dollars:						
Bank loans			**—**			6,145
Interest pay rate	**—**			3.9		
Interest receive rate	**—**			2.4		
Syndicated loan			**—**			1,606
Interest pay rate	**—**			3.6		
Interest receive rate	**—**			2.3		
Mexican pesos:						
Bank loans			**9,360**			1,578
Interest pay rate	**10.2**			10.1		
Interest receive rate	**10.5**			7.2		
Certificados bursátiles			**8,250**			3,944
Interest pay rate	**9.2**			9.0		
Interest receive rate	**9.3**			6.9		

(1) Weighted average rate.

Maturities of long-term debt as of December 31, 2004 are as follows:

Current maturities of long-term debt	Ps.	3,540
2006		4,605
2007		3,442
2008		8,397
2009		8,173
2010 and thereafter		11,668
	Ps.	39,825

The Company has financing from different institutions with different restrictions and covenants, which mainly consist of maximum levels of leverage and capitalization as well as minimum consolidated net worth and debt and interest coverage ratios. As of the date of these consolidated financial statements, the Company was in compliance with all restrictions and covenants contained in its financing agreements.

As of December 31, 2004, the Company had Mexican peso and US dollar-denominated approved lines of credit, as follows:

- Uncommitted lines of credits for approximately Ps. 8,641, of which Ps. 8,561 was available as of such date;
- Committed lines of credits for approximately Ps. 557; and
- A loan agreement with The Coca Cola Company that permits to Coca-Cola FEMSA to borrow, upon the satisfaction of certain conditions, up to Ps. 2,787 prior to December 20, 2006 for funding working capital needs and for other general corporate purposes.

NOTE 19. FAIR VALUE OF FINANCIAL INSTRUMENTS.

A) LONG-TERM DEBT:

The fair value of long-term bank loans and syndicated loans is based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt of similar amounts and maturities. The fair value of long-term notes is based on quoted market prices. The fair value is estimated as of the day of the most recent balance sheet presented.

	2004	2003
Carrying value	Ps. 39,825	Ps. 37,903
Fair value	40,360	38,825

B) EQUITY FORWARD:

A subsidiary of Coca-Cola FEMSA had an equity forward contract which expired in June 2004. In 2003, this contract generated a loss of Ps. 37, which was recognized in the Panamco acquisition balance. On June 18, 2004, this subsidiary entered into a new forward contract, which expired in September 2004, resulting in the recognition of a loss of Ps. 19, which was recorded in the income statement in 2004.

C) INTEREST RATE SWAPS:

The Company uses interest rate swaps to manage the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. Additionally, during 2002, the Company sold put options as a complement to the swap agreements, for which it received a premium of Ps. 5. The net effect is included in interest expense and amounted to Ps. 147, Ps. 124 and Ps. 41 for the years ended December 31, 2004, 2003 and 2002, respectively.

The fair value is estimated based on quoted market prices to terminate the contracts at the date of the most recent balance sheet presented.

At December 31, 2004, the Company has the following outstanding interest rate swap agreements:

MATURITY DATE	*Notional Amount*	*Fair Value*
2006	Ps. 713	Ps. (15)
2007	4,250	41
2008	5,000	86
2009	2,405	(39)
2010	2,805	(19)
2011	1,650	27
2012	1,500	(34)

D) FORWARD AGREEMENTS TO PURCHASE FOREIGN CURRENCY:

In connection with the financing of the Interbrew transactions, the Company entered into forward contracts to buy US dollars. During 2004, most of these forward contracts matured, generating an exchange loss of Ps. 229 recorded in the income statement. As of December 31, 2004, the Company has forward contracts to buy US dollars in the amount of $250, with a maturity date of March 2005, and with a compounded average forward exchange rate of 11.31 Mexican pesos per US dollar.

Additionally, the Company had forward agreements for the purchase of euros for the purpose of hedging the exchange risk between the US dollar and the euro for the purchase of equipment. These contracts were paid during 2004 and the Company recognized a foreign exchange gain of Ps. 17.

The fair value is estimated based on the quoted market exchange rate to terminate the contracts at the day of most recent balance sheet presented, which as of December 31, 2004 represented a gain of Ps. 3.

E) CROSS CURRENCY SWAPS:

The Company also has cross currency swaps to manage the interest rate and the foreign exchange risks associated with its borrowings denominated in US dollars.

The fair value is estimated based on the quoted market exchange rates and interest rates to terminate the contracts at the day of most recent balance sheet presented.

At December 31, 2004, the Company has the following outstanding cross currency swap agreements:

MATURITY DATE		*Notional Amount*		*Fair Value*
2009	Ps.	167	Ps.	(2)
2010		1,393		3

F) COMMODITY PRICE CONTRACTS:

The Company entered into various commodity price contracts to hedge the cost of certain raw materials. The result of the commodity price contracts was a gain of Ps. 76, loss of Ps. 20 and a gain of Ps. 19 during the years ended December 31, 2004, 2003 and 2002, respectively, which were recorded in the results of operations. The fair value is estimated based on quoted market prices to terminate the contracts at the day of the most recent balance sheet presented. As of December 31, 2004, the Company has various commodity price contracts with maturity dates ending in 2005, notional amounts of Ps. 467 and a fair value gain of Ps. 21.

NOTE 20. MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES.

		2004		2003
Coca-Cola FEMSA	**Ps.**	**16,671**	Ps.	13,104
FEMSA Cerveza		**50**		5,490
	Ps.	**16,721**	Ps.	18,594

On June 8, 2004, by a capital contribution, Winsa Company LLP acquired a 16.89% voting equity interest in an indirect subsidiary of Coca-Cola FEMSA, which is the holding company for its subsidiaries in Brazil, for Ps. 590.

NOTE 21. STOCKHOLDERS' EQUITY.

As of December 31, 2004, the capital stock of FEMSA was comprised of 5,297,310,450 common shares, without par value and with no foreign ownership restrictions. Fixed capital amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock.

The characteristics of the common shares are as follows:

- Series "B" shares, with unlimited voting rights, which at all times must represent a minimum of 51% of total capital stock;
- Series "L" shares, with limited voting rights, which may represent up to 25% of total capital stock; and
- Series "D" shares, with limited voting rights, which individually or jointly with series "L" shares may represent up to 49% of total capital stock.

The Series "D" shares are comprised as follows:

- Subseries "D-L" shares may represent up to 25% of the series "D" shares;
- Subseries "D-B" shares may comprise the remainder of outstanding series "D" shares; and
- The non-cumulative premium dividend to be paid to series "D" stockholders will be 125% of any dividend paid to series "B" stockholders.

The Series "B" and "D" shares are linked together in related units as follows:

- "B units" each of which represents five series "B" shares and which are traded on the BMV;
- "BD units" each of which represents one series "B" share, two subseries "D-B" shares and two subseries "D-L" shares, and which are traded both on the BMV and the NYSE; and
- The related units will cease to be linked together on May 2008, after a period of 10 years from the date of the first issue. Subseries "D-B" shares will be converted into series "B" shares, and subseries "D-L" shares will be converted into series "L" shares.

As of December 31, 2004, FEMSA's capital stock is comprised as follows:

	"B" Units	*"BD" Units*	*Total*
Units	419,569,500	639,892,590	1,059,462,090
Shares:			
Series "B"	2,097,847,500	639,892,590	2,737,740,090
Series "D"	—	2,559,570,360	2,559,570,360
Subseries "D-B"	—	1,279,785,180	1,279,785,180
Subseries "D-L"	—	1,279,785,180	1,279,785,180
Total shares	2,097,847,500	3,199,462,950	5,297,310,450

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

	Historical Cost	*Restatement*	*Restated Value*
Capital stock	Ps. 2,649	Ps. 1,814	Ps. 4,463
Additional paid-in capital	7,577	5,110	12,687
Retained earnings from prior years	17,727	1,268	18,995
Net income	5,694	137	5,831

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, 2004, this reserve for FEMSA amounted to Ps. 530 (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, except for the restated stockholder contributions and distributions made from consolidated taxable income, denominated "Cuenta de Utilidad Fiscal Neta" ("CUFIN") or from reinvested consolidated taxable income, denominated "Cuenta de Utilidad Fiscal Neta Reinvertida" ("CUFINRE").

Dividends paid in excess of CUFIN and CUFINRE will be subject to income tax at a grossed-up rate based on the current statutory rate. Beginning in 2003, this tax may be credited against the income tax of the year in which the dividends are paid and in the following two years against the income tax and estimated tax payments. As of December 31, 2004, the balances of CUFIN and CUFINRE amounted to Ps. 13,588 and Ps. 2,491, respectively, and the deferred tax payments were Ps. 192.

At an ordinary stockholder meeting of the Company held on March 11, 2004, the stockholders approved a dividend of 0.089500 Mexican pesos (nominal value) per series "B" share and 0.111875 Mexican pesos (nominal value) per series "D" share that were paid in May 2004. Additionally, the stockholders approved a maximum of Ps. 3,000 for a stock repurchase program.

At an ordinary stockholder meeting of Coca-Cola FEMSA held on March 9, 2004, the stockholders approved a dividend of Ps. 539 that was paid in May 2004. The corresponding payment to the minority interest of Ps. 292 is presented as a reduction of minority interest in the statement of changes in stockholders' equity.

NOTE 22. NET MAJORITY INCOME PER SHARE.

This represents the net majority income corresponding to each share of the Company's capital stock, computed on the basis of the weighted average number of shares outstanding. Additionally, the net income distribution according to the dividend rights of each share series is presented.

The following presents the computed weighted average number of shares and the distribution of income per share series as of December 31, 2004, 2003 and 2002:

	Millions of Shares			
	Series "B"		*Series "D"*	
	Number	*Weighted Average*	*Number*	*Weighted Average*
Shares outstanding	2,737.70	2,737.70	2,559.60	2,559.60
Dividend rights	1.00		1.25	
Allocation of earnings	46.11%		53.89%	

NOTE 23. TAX SYSTEM.

A) INCOME TAX:

Income tax is computed on taxable income, which differs from accounting income principally due to the treatment of the integral result of financing, the cost of labor liabilities, depreciation and other accounting provisions. In the case of Mexico, it also differs due to the difference between the purchase of inventory and cost of sales. The tax loss may be carried forward and applied against future taxable income as shown below.

The income tax rates applicable in 2004 in the countries where the Company operates and the years in which tax loss carryforwards may be applied are as follows:

	Statutory Tax Rate	*Tax Loss Carryforwards Expiration (Years)*
Mexico	33.0%	10
Guatemala	31.0%	N/A
Nicaragua	30.0%	3
Costa Rica	30.0%	3
Panama	30.0%	5
Venezuela	34.0%	3
Colombia	38.5%	5–8
Brazil	34.0%	Indefinite
Argentina	35.0%	5

The statutory income tax rate in Mexico for the years ended December 31, 2004, 2003 and 2002 was 33%, 34% and 35%, respectively.

On December 1, 2004, an amendment to the income tax rate was published, and became effective as of January 1, 2005. The principal changes of the amendment are presented as follows:

- The statutory income tax rate will be 30% for 2005, and it will be reduced by one percentage point per year through 2007, when the rate will be 28%;
- The tax deduction for inventories will be made through cost of sales, and the inventory balance as of December 31, 2004 will be taxable during the next 4 to 12 years, based on specific criteria issued by the tax law;
- Paid employee profit sharing will be deductible for income tax; and
- The limit of the 60% of the stockholders' participation in the taxable income or loss of Mexican subsidiaries will be eliminated for tax consolidation purposes.

In Guatemala, tax loss carryforwards may only be applied by companies of recent creation (not applicable to the Company). In Colombia, tax losses generated before December 31, 2002 may be carried forward for a period of five years, and tax losses generated after January 1, 2003 may be carried forward for a period of eight years, but limited to 25% of the taxable income of each year. In Brazil, tax loss carryforwards do not expire and may be carried forward for an indefinite period. The application of tax loss carryforwards in any year, however, is limited to 30% of the taxable income generated in such year.

B) TAX ON ASSETS:

The Mexican tax on assets is computed at an annual rate of 1.8% based on the average of certain assets at tax restated value less certain liabilities. The tax on assets is paid only to the extent that it exceeds the income tax of the year. If in any year a tax on assets payment is required, this amount can be credited against the excess of income taxes over the tax on assets in each of the preceding three years. Additionally, this payment may be restated and credited against the excess of income taxes over asset taxes for the following 10 years. Effective January 1, 2005, based on the amendment made to the tax law, bank loans and foreign debt will be deducted to determine the taxable base of the tax on assets.

Additionally, operations in Guatemala, Nicaragua, Venezuela, Colombia and Argentina are subject to a minimum tax, which is based primarily on a percentage of assets. Any payment would be recoverable in the following years.

C) EMPLOYEE PROFIT SHARING:

Employee profit sharing is applicable to Mexico and Venezuela. In Mexico, employee profit sharing is computed at the rate of 10% of the individual taxable income, except that depreciation of historical rather than restated values is used, foreign exchange gains and losses are not included until the asset is disposed of or the liability is due, and other effects of inflation are also excluded. In Venezuela, employee profit sharing is computed at a rate equivalent to 15% of after tax earnings.

D) DEFERRED INCOME TAX AND EMPLOYEE PROFIT SHARING:

The temporary differences that generated deferred income tax liabilities (assets) are as follows:

DEFERRED INCOME TAX		2004		2003
Allowance for doubtful accounts	Ps.	(124)	Ps.	(157)
Inventories		1,824		1,938
Prepaid expenses		88		134
Property, plant and equipment		4,001		4,623
Investments in shares		9		190
Intangible and other assets		(588)		(209)
Pension plan		(293)		(368)
Seniority premiums		(48)		(45)
Post-retirement medical services		(56)		(53)
Recoverable tax on assets		(290)		(83)
Tax loss carryforwards		(724)		(446)
Contingencies reserves		(429)		(910)
Deferred provisions		(568)		(571)
Other reserves		2		(181)
Deferred income tax, net		2,804		3,862
Deferred recoverable income tax		1,353		1,355
Deferred income tax payable	Ps.	4,157	Ps.	5,217

The changes in the balance of the deferred income tax, net are as follows:

	2004	2003
Initial balance	Ps. 3,862	Ps. 4,387
Acquisition balance of Panamco	—	(982)
Gain on monetary position	49	28
Provision for the year	(402)	543
Change in the statutory income tax rate	(602)	(72)
Additional labor liability over unrecognized net transition obligation	9	(47)
Result of holding non-monetary assets	(112)	5
Ending balance	Ps. 2,804	Ps. 3,862

At December 31, 2004, there are no significant non-recurring temporary differences between the accounting income for the year and the bases for Mexican employee profit sharing. As a result, the Company did not record a provision for deferred employee profit sharing.

E) PROVISION FOR THE YEAR:

	2004	2003	2002
Current income tax	Ps. 4,226	Ps. 2,673	Ps. 3,584
Tax on assets	69	47	38
Deferred income tax	(402)	543	152
Change in the statutory income tax rate	(602)	(72)	(144)
	3,291	3,191	3,630
Benefit from favorable tax ruling (Note 24 A)	(1,311)	—	—
	1,980	3,191	3,630
Employee profit sharing	415	393	339
Deferred employee profit sharing	—	—	(9)
	Ps. 2,395	Ps. 3,584	Ps. 3,960

F) TAX LOSS CARRYFORWARDS AND RECOVERABLE TAX ON ASSETS:

As of December 31, 2004, the subsidiaries from Mexico, Venezuela and Brazil have tax loss carryforwards and/or recoverable tax on assets. The expiration dates of such amounts are as follows:

Year	*Tax Loss Carryforwards*	*Recoverable Tax on Assets*
2005	Ps. 353	Ps. 76
2006	10	67
2007	10	70
2008	16	24
2009	2,319	1
2010	19	5
2011	19	11
2012	75	14
2013	157	18
2014 and thereafter	962	28
	Ps. 3,940	Ps. 314

Due to the uncertainty of the realization of tax loss carryforwards, a valuation allowance of Ps. 1,339 has been recorded. The changes in the balances are as follows:

	2004	2003
Initial balance	Ps. 1,464	Ps. —
Acquisition of Panamco	—	1,464
Provision of the year	475	—
Cancellation of provision	(600)	—
Ending balance	Ps. 1,339	Ps. 1,464

G) RECONCILIATION OF MEXICAN STATUTORY INCOME TAX RATE TO CONSOLIDATED EFFECTIVE INCOME TAX RATE:

	2004	2003	2002
Mexican statutory income tax rate	33%	34%	35%
Difference between book and tax inflationary effects	—	1	—
Non-deductible expenses	1	4	3
Impairment of the goodwill generated by Coca-Cola FEMSA Buenos Aires	—	—	2
Effect of change in Mexican income tax rate	(5)	(1)	(1)
Other	(1)	(1)	1
Consolidated effective income tax rate	28%	37%	40%

NOTE 24. CONTINGENCIES AND COMMITMENTS.

A) SETTLED LAWSUITS:

- During 2002 and 2003, certain Mexican subsidiaries of Coca-Cola FEMSA initiated appeals related to the Impuesto Especial sobre Producción y Servicios ("IEPS") ("Special Tax on Products and Services") applicable to inventories produced with high fructose content. Additionally, during 2003, such subsidiaries included in their appeals the IEPS applicable to all carbonated soft drinks produced with non-sugar sweeteners. In November 2003, such subsidiaries obtained a final favorable decision not subject to appeal from a Mexican federal court for the 2002 appeal and in June 2004 for the 2003 appeal. Based on the favorable resolutions, the Company recorded a receivable for refundable taxes of Ps. 236.

- The SHCP determined taxes due by FEMSA Cerveza related to exports in 1998 and 1999 to countries considered to be tax havens. The Company unsuccessfully appealed these tax assessments, and an unfavorable resolution for the Company was reached, for which a provision of Ps. 63 was recorded in the income statement for December 31, 2004.

- In May 2004, the Company obtained a favorable final ruling not subject to appeal from a Mexican Federal Court allowing it to deduct a tax loss carryforward arising from a sale of shares during 2002, against income tax generated in the operation, with a benefit in the income tax of Ps. 1,311, which is included in the income statement (see Note 23 E).

- In April 2004, the Supreme Court of Mexico issued specific rules regarding tax deduction of certain assets in the beverage industry, such as refrigerators, considering them to be fixed assets with finite useful lives. The Company previously considered refrigerators as an expense for tax purposes. This change of criteria had no effect on net income, since the difference between the book and tax basis of the refrigerators was recorded as a deferred income tax liability. The amount paid for fines and surcharges was Ps. 139, and was recorded as an income tax in the income statement in 2004.

- In 1998 and 1999, due to adjustments to consolidated tax on assets derived from increased shareholdings in subsidiaries, the Company determined a tax on assets receivable and filed for a refund. The tax authorities rejected the refund request, and the Company has appealed that decision. Given that in the opinion of the Company's legal counsel, it was probable that the Company would obtain a favorable resolution, in 1999 the Company recorded a receivable for refundable taxes. As of December 31, 2004, a final unfavorable resolution was issued, for which the Company decided to write-off such receivable and record the deferred tax asset derived from the recoverable tax on assets in the amount of Ps. 229.

B) UNSETTLED LAWSUITS:

- 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 have been recorded as an increase of the intangible assets recorded as a result of the Panamco acquisition. The following table presents the nature and amount of the loss contingencies as of December 31, 2004:

	Short-Term	*Long-Term*	*Total*
Tax	Ps. 97	Ps. 1,144	Ps. 1,241
Legal	—	163	163
Labor	60	219	279
Total	Ps. 157	Ps. 1,526	Ps. 1,683

- In March 2003, the Mexican Antitrust Commission started an investigation involving The Coca-Cola Company, Coca-Cola FEMSA and certain other Coca-Cola bottlers due to complaints filed by some retailers and other bottlers. In August 2004, as a result of the investigation, the Mexican Antitrust Commission issued several Oficios de Presunta Responsabilidad (statement of charges) asserting that Coca-Cola FEMSA and its Mexican operating subsidiaries, as well as other bottlers, engaged in monopolistic practices and requested additional information on two occasions. Following the second round of requests, Coca-Cola FEMSA and its operating companies initiated amparo proceedings asserting the illegality of these requests, which are currently under review. The Company cannot give any assurances that any action taken as a result of this investigation will not negatively affect it in the future.

- In 2004, a Costa Rican subsidiary was required to pay approximately $12, with respect to taxes on sale of carbonated soft drinks from April 2002 through July 2003. In previous years, the Company was also required to pay similar taxes, for which the Company appealed and was successful. The Company does not believe these taxes will have a material adverse effect on its financial position or results of operations.

- In 2002, a competing bottler filed a lawsuit against the Company's Panamanian subsidiary for approximately $98, alleging the use of monopolistic practices. In 2004, the parties have agreed to discontinue the lawsuit without requiring any change in the Company's agreements.

- In 1999, certain Venezuelan subsidiaries received notice of certain tax claims asserted by the Venezuelan taxing authorities. These claims currently total approximately $17. The Company has certain indemnification rights from the original owner and therefore does not believe that the ultimate disposition of these cases will have a material adverse effect on its financial position or results of operations.

- Certain Venezuelan subsidiaries have been the subject of lawsuits filed by former distributors for a total amount of approximately $21. The Company believes, based on decisions rendered by the Supreme Court in similar cases, and an analysis of each case, that these claims have no merit.

- In 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the US District Court for the Southern District of Florida against certain Colombian subsidiaries and The Coca-Cola Company. In the complaint, the plaintiffs alleged that the subsidiaries engaged in wrongful acts against the labor union and its members in Colombia for the amount of $500. The Company has filed a motion to dismiss the complaint and believes the resolution of this matter will not have a material adverse effect on its consolidated financial position or results of operations.

- Private parties have filed several claims before the Brazilian Ministry of Law and Economics that allege anticompetitive practices by Brazilian subsidiaries. The Company believes that these claims have no merit.

- As is customary in Brazil, certain subsidiaries have been requested to secure tax contingencies currently in litigation by pledging fixed assets of Ps. 253 and contracting bonds backed by lines of credit in the amount of Ps. 337 (denominated in Brazilian currency) in favor of the tax authorities.

- Other legal proceedings are pending against or involve the Company and its subsidiaries, which do not affect the conduct of their businesses. The Company believes that the ultimate disposition of such other legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations.

C) COMMITMENTS:

As of December 31, 2004, the Company has capital and operating leases commitments for the leasing of production machinery and equipment, distribution equipment, computing equipment and land for the operations of FEMSA Comercio.

The contractual maturities of the leasing commitments by currencies, expressed in Mexican pesos as of December 31, 2004 are as follows:

	2005	*2006*	*2007*	*2008*	*2009*	*2010 and Thereafter*	*Total*
Mexican pesos	Ps. 653	Ps. 640	Ps. 623	Ps. 583	Ps. 536	Ps. 3,861	Ps. 6,896
US dollars	325	248	167	95	60	11	906
Guatemalan quetzals	9	1	1	—	—	—	11
Nicaraguan cordobas	4	2	3	3	—	—	12
Colombian pesos	8	4	—	—	—	—	12
Brazilian reals	43	46	48	51	127	—	315

Rental expense charged to operations amounted to approximately Ps. 1,117, Ps. 817 and Ps. 576 for the years ended December 31, 2004, 2003 and 2002, respectively.

NOTE 25. INFORMATION BY SEGMENT.

Relevant information concerning the major subsidiaries of FEMSA, which represent different segments, is as follows:

A) BY BUSINESS UNIT

The information by segment of the years 2003 and 2002 was reclassified in order to make it comparable to the presentation for 2004, due to:
- The operations relating to the production of aluminum beverage cans, caps and glass beverage bottles was integrated into FEMSA Cerveza (see Note 1);
- During the month of December 2003, all of the "Six" stores previously owned by FEMSA Cerveza that were considered suitable to be converted into the Oxxo format were sold to FEMSA Comercio; and
- The segment of FEMSA Empaques has been classified in the "others" segment, because it no longer meets any of the quantitative and qualitative criteria to be presented as an operative segment according to Bulletin B-5, "Información Financiera por Segmentos" (Financial Information by Segment) ("B-5").

2004	Coca-Cola FEMSA	FEMSA Cerveza	FEMSA Comercio	Others	Consolidation Adjustments	Consolidated
Total revenues	Ps. 46,499	Ps. 24,970	Ps. 22,838	Ps. 5,150	Ps. (5,501)	Ps. 93,956
Intercompany revenues	276	1,613	2	3,610	(5,501)	—
Income from operations	7,696	4,744	911	405	(18)	13,738
Depreciation [1]	1,961	1,470	216	104	—	3,751
Amortization	289	1,720	219	40	—	2,268
Other non-cash charges [2] [3]	64	108	5	56	—	233
Impairment of long-lived assets	—	469	—	18	—	487
Interest expense	2,531	813	218	491	(289)	3,764
Interest income	266	161	51	352	(289)	541
Income tax and tax on assets	802	786	238	154	—	1,980
Capital expenditures	1,929	3,171	1,648	154	—	6,902
Long-term assets	58,016	34,243	5,304	8,437	(6,202)	99,798
Total assets	67,066	43,071	8,280	10,145	(7,885)	120,677
2003						
Total revenues	38,121	24,150	18,304	4,774	(5,195)	80,154
Intercompany revenues	185	1,587	12	3,411	(5,195)	—
Income from operations	7,099	4,485	736	333	(13)	12,640
Depreciation [1]	1,588	1,487	138	106	—	3,319
Amortization	86	1,669	131	22	—	1,908
Other non-cash charges [2] [3]	47	109	5	52	—	213
Impairment of long-lived assets	—	831	—	—	—	831
Interest expense	1,625	825	157	144	(160)	2,591
Interest income	251	225	60	367	(160)	743
Income tax and tax on assets	1,543	1,043	282	323	—	3,191
Capital expenditures	2,007	3,731	1,273	128	—	7,139
Long-term assets	57,949	25,622	4,071	5,655	(2,889)	90,408
Total assets	66,668	35,700	6,456	8,206	(5,377)	111,653
2002						
Total revenues	19,586	23,833	14,700	5,314	(5,436)	57,997
Intercompany revenues	154	1,559	116	3,607	(5,436)	—
Income from operations	4,866	4,460	546	378	(50)	10,200
Depreciation [1]	992	1,462	98	86	—	2,638
Amortization	81	1,494	103	67	—	1,745
Other non-cash charges [2] [3]	19	37	4	51	—	111
Impairment of long-lived assets	477	177	—	—	—	654
Interest expense	360	601	90	138	(263)	926
Interest income	277	101	27	347	(263)	489
Income tax and tax on assets	1,868	1,366	184	212	—	3,630
Capital expenditures	1,481	3,668	901	27	—	6,077

(1) Includes breakage of bottles of Coca-Cola FEMSA.
(2) Excludes the non-cash charges related to current assets and liabilities.
(3) Includes the cost for the year related to labor liabilities (see Note 16 D) and participation in associated companies.

B) BY GEOGRAPHIC AREA

TOTAL REVENUES	2004	2003	2002
Mexico	**Ps. 74,936**	Ps. 67,166	Ps. 56,129
Central America [1]	**3,459**	2,277	—
Colombia	**4,141**	2,773	—
Venezuela	**4,776**	2,884	—
Brazil	**5,137**	3,182	—
Argentina	**2,451**	2,101	1,868
Consolidation adjustments	**(944)**	(229)	—
	93,956	80,154	57,997

CAPITAL EXPENDITURES	2004	2003	2002
Mexico	**6,075**	6,637	5,993
Central America [1]	**164**	152	—
Colombia	**120**	1	—
Venezuela	**240**	51	—
Brazil	**250**	190	—
Argentina	**53**	108	84
	6,902	7,139	6,077

LONG-TERM ASSETS	2004	2003
Mexico	**Ps. 90,954**	Ps. 80,995
Central America [1]	**4,916**	5,111
Colombia	**6,076**	5,765
Venezuela	**3,544**	3,264
Brazil	**4,693**	4,859
Argentina	**1,185**	1,272
Consolidation adjustments	**(11,570)**	(10,858)
	99,798	90,408

TOTAL ASSETS	2004	2003
Mexico	**108,465**	100,781
Central America [1]	**5,972**	5,913
Colombia	**8,274**	7,933
Venezuela	**4,393**	4,093
Brazil	**6,068**	6,084
Argentina	**1,893**	1,677
Consolidation adjustments	**(14,388)**	(14,828)
	120,677	111,653

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

Note 26. Differences Between Mexican GAAP and US GAAP.

The consolidated financial statements of the Company are prepared in accordance with Mexican GAAP, which differs in certain significant respects from US GAAP. A reconciliation of the reported majority net income, majority stockholders' equity and majority comprehensive income to US GAAP is presented in Note 27. It should be noted that this reconciliation to US GAAP does not include the reversal of the restatement of the financial statements as required by Bulletin B-10, "Reconocimiento de los Efectos de Inflación en la Información Financiera" (Recognition of the Effects of Inflation in the Financial Information), of Mexican GAAP.

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

The principal differences between Mexican GAAP and US GAAP included in the reconciliation that affect the consolidated financial statements of the Company are described below.

a) Consolidation of Coca-Cola FEMSA:

As mentioned in Note 4, under Mexican GAAP, the Company consolidates Coca-Cola FEMSA since it owns a majority of the outstanding voting capital stock and exercises control over the operations of Coca-Cola FEMSA in the ordinary course of business in accordance with the requirements of Mexican GAAP Bulletin B-8, "Estados Financieros Consolidados y Combinados y Valuación de Inversiones Permanentes en Acciones" (Consolidated and Combined Financial Statements and Valuation of Long-Term Investment in Shares). Pursuant to such Bulletin, Coca-Cola FEMSA meets the criteria of a subsidiary for consolidation as FEMSA holds more than 50% of Coca-Cola FEMSA's outstanding voting stock and has not yielded control to a minority shareholder. Bulletin B-8 establishes that control has been yielded when a minority shareholder obtains:

- Control over more than 50% of the voting rights through a formal agreement with other shareholders;
- The power derived from by-laws or formal agreement by shareholders to govern the operating and financial policies of a company;
- The power to appoint or remove a majority of the Board of Directors or any organization that governs the operating and financial policies of the company; or
- The power to decide the majority of the votes of the Board of Directors.

No minority shareholder of Coca-Cola FEMSA has obtained any of the rights described above.

The shareholders' agreement grants The Coca-Cola Company's substantive participating rights. The affirmative vote of two Directors appointed by The Coca-Cola Company is, with limited exceptions, required for matters considered by the Board of Directors, including the annual business plan, capital investment plan and asset disposals, mergers, acquisitions or sales of any line of business. Under EITF 96-16, "Investor's Accounting for an Investee when the Investor owns a Majority of the Voting Stock but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights," such approval and veto rights held by The Coca-Cola Company qualify as substantive participating rights and therefore do not allow FEMSA to consolidate Coca-Cola FEMSA in its financial statements for US GAAP purposes. Therefore, FEMSA's investment in Coca-Cola FEMSA is recorded by applying the equity method in FEMSA's consolidated financial statements under US GAAP.

Subsequent to the issuance of the Company's December 31, 2003 consolidated financial statements, management determined that in accordance with EITF 96-16, The Coca-Cola Company's ability to have exercised its participating rights does not allow FEMSA to consolidate Coca-Cola FEMSA for purposes of US GAAP. Accordingly, the Company has presented its investment in Coca-Cola FEMSA under the equity method for US GAAP purposes for all years presented. As a result, all disclosures under US GAAP have been restated in order to present the information on a comparable basis. It should be noted that deconsolidation of Coca-Cola FEMSA has no effect on the reconciliation of net income or stockholders' equity from Mexican GAAP to US GAAP, which is presented in Note 27.

A summarized balance sheets and income statements of Coca-Cola FEMSA under US GAAP as of December 31, 2004 and 2003, and for the three years ended December 31, 2004, are presented as follows:

CONSOLIDATED BALANCE SHEETS	2004	2003
Current assets	Ps. 9,722	Ps. 9,661
Property, plant and equipment	18,810	18,675
Other assets	39,393	38,003
Total assets	67,925	66,339
Current liabilities	208	1,743
Long-term liabilities	21,716	27,393
Other liabilities	16,024	13,836
Total liabilities	37,948	42,972
Minority interest in consolidated subsidiaries	709	174
Stockholders' equity	29,268	23,193
Total liabilities and stockholders' equity	Ps. 67,925	Ps. 66,339

CONSOLIDATED INCOME STATEMENTS	2004	2003	2002
Total revenues	Ps. 46,499	Ps. 37,345	Ps. 19,272
Income from operations	7,414	6,867	4,677
Income before income tax and tax on assets	6,367	4,061	4,723
Income tax and tax on assets	586	1,622	1,962
Minority interest in results of consolidated subsidiaries	23	21	—
Net income	5,758	2,418	2,761
Other comprehensive income	853	669	(978)
Comprehensive income	Ps. 6,611	Ps. 3,087	Ps. 1,783

B) CLASSIFICATION DIFFERENCES:

Certain items require a different classification in the balance sheet or income statement under US GAAP. These include:

- As explained in Note 6 C), under Mexican GAAP, advances to suppliers are recorded as inventories. Under US GAAP advances to suppliers are classified as prepaid expenses; and
- The impairment of goodwill and other long-lived assets, the gain or loss on the disposition of fixed assets, all severance indemnities and employee profit sharing must be included in operating expenses under US GAAP.

C) DEFERRED PROMOTIONAL EXPENSES:

As explained in Note 6 D), for Mexican GAAP purposes, the promotional costs related to the launching of new products or presentations are recorded as prepaid expenses. For US GAAP purposes, such promotional costs are expensed as incurred. As of December 31, 2004, 2003 and 2002, FEMSA Cerveza does not have deferred promotional expenses.

D) START-UP EXPENSES:

As explained in Note 6 I), under Mexican GAAP, start-up expenses are capitalized and are amortized in accordance with the terms of the lease contracts, at the start of operations using the straight-line method. Under US GAAP, these expenses must be recorded in the income statement as incurred, except for the licenses for the sale of beer paid for by FEMSA Comercio, which for US GAAP purposes are intangible assets and are amortized using the straight-line method beginning at the start of operations.

E) INTANGIBLE ASSETS:

As mentioned in Note 6 I), under Mexican GAAP, until January 1, 2003 all intangible assets were amortized over a period of no more than 20 years. Effective January 1, 2003 revised Bulletin C-8, "Activos Intangibles" (Intangible Assets) ("C-8"), went into effect and recognizes that certain intangible assets (excluding goodwill) have indefinite lives and should not be amortized. Under US GAAP, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002, goodwill and indefinite-lived intangible assets are also no longer subject to amortization, but rather are subject to periodic assessment for impairment. Accordingly, amortization of indefinite-lived intangible assets was discontinued in 2002 for US GAAP and in 2003 for Mexican GAAP.

As a result of the adoption of this standard, the Company performed an initial impairment test as of January 1, 2002 and found no impairment. Subsequent impairment tests are performed annually by the Company, unless an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, in which case an impairment test would be performed between annual tests.

F) RESTATEMENT OF IMPORTED EQUIPMENT:

As explained in Note 6 G), under Mexican GAAP, imported machinery and equipment have been restated by applying inflation rate of the country of origin, then translated into Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

Under US GAAP, the Company applies the Securities and Exchange Commission regulations, which require that all machinery and equipment, both domestic and imported, be restated using inflation factors.

G) CAPITALIZATION OF THE INTEGRAL RESULT OF FINANCING:

Under Mexican GAAP, the capitalization of the integral result of financing (interest, foreign exchange and monetary position) generated by loan agreements obtained to finance investment projects is optional, and the Company has elected not to capitalize the integral result of financing.

In accordance with US GAAP, if the integral result of financing is incurred during the construction of qualifying assets, capitalization is required as part of the cost of such assets. Accordingly, a reconciling item for the capitalization of a portion of the integral result of financing is included in the US GAAP reconciliation of the majority net income and majority stockholders' equity. If the borrowings are denominated in US dollars, the weighted-average interest rate on all such outstanding debt is applied to the balance of construction-in-progress to determine the amount to be capitalized. If the borrowings are denominated in Mexican pesos, the amount of interest to be capitalized as noted above is reduced by the gain on monetary position associated with the debt.

H) FINANCIAL INSTRUMENTS:

In accordance with Mexican GAAP, as mentioned in Note 6 Q), the Company values and records all derivative instruments and hedging activities according to Bulletin C-2, "Instrumentos Financieros" (Financial Instruments) ("C-2").

Under US GAAP, the Company values and records all derivative instruments and hedging activities according to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the fair value of a derivative instrument be recognized in the net income or other comprehensive income, if the instrument represents a cash flow hedge that qualifies for hedge accounting.

For purposes of SFAS No. 133, the Company elected not to designate its financial instruments as hedges for derivative instruments, and accordingly, the entire effect of the valuation of those instruments contracted before December 31, 2000 was recognized in the income statement at January 1, 2001.

Under Mexican GAAP, the commodity price contracts, as well as the equity forward contracted by the Company (see Note 19), have been designated as hedges and accordingly valued using the same valuation criteria applied to the underlying asset or liability, which are recognized in the income statement when the consumption or payment takes place. However, under US GAAP, these agreements must be adjusted to their market value, recognizing the corresponding asset or liability. Except for certain interest rate swaps, the hedging relationship required by US GAAP have not been documented in the manner specified by SFAS No. 133; therefore, a reconciling item has been included in the US GAAP reconciliation to adjust earnings for this difference in valuation method.

Since the Company has properly designated the interest rate swaps as effective cash flow hedges, it recognizes the change in the fair market value of those swaps through other comprehensive income.

Under US GAAP, certain of the Company's lease contracts qualify as foreign exchange embedded derivative contracts, since such contracts are denominated in dollars and the dollar is not the functional currency of either party. Accordingly, a reconciling item has been included in the US GAAP reconciliation to adjust earnings for this difference in valuation method.

The functional currency of the main raw material and packaging suppliers of the Company is the US dollar, and the Company makes payments on its purchases in US dollars. Therefore, these contracts qualify for the exemption of the SFAS No. 133, that an embedded foreign currency derivative instrument shall not be separated from the host contract and considered a derivative instrument, if the host contract is not a financial instrument and it requires payments denominated in the functional currency of any substantial party to that contract.

Additionally, FEMSA has other packaging contracts that do not specify any notional amount, therefore, the embedded derivative instrument is not separated from the host contract.

I) DEFERRED INCOME TAX AND EMPLOYEE PROFIT SHARING:

The Company follows SFAS No. 109, "Accounting for Income Taxes," for US GAAP purposes, which differs from Mexican GAAP as follows:

- Under Mexican GAAP, deferred taxes are classified as non-current, while under US GAAP they are based on the classification of the related asset or liability;
- Under Mexican GAAP, the effects of inflation on the deferred tax balance generated by monetary items are recognized in the result of monetary position. Under US GAAP, the deferred tax balance is classified as a non-monetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain (loss) on monetary position and deferred income tax provision;
- Under Mexican GAAP, deferred employee profit sharing is calculated considering only those temporary differences that arise during the year and which are expected to turn around within a defined period, while under US GAAP, the same liability method used for deferred income tax is applied; and
- The differences in start-up expenses, restatement of imported machinery and equipment, the capitalization of financing costs, financial instruments and the pension plan mentioned in Note 26 D), F), G), H) and J) generate a difference when calculating the deferred income tax under US GAAP compared to that presented under Mexican GAAP (see Note 23 D).

As explained in Note 23 A) beginning in 2005, the employee profit sharing will be deductible for income tax purposes in Mexico. This new deduction will reduce the payments of income tax in subsequent years. Therefore, the Company recorded a reduction in deferred income tax liability in the amount of Ps. 297.

The reconciliation of deferred income tax and employee profit sharing, as well as the changes in the balances of deferred taxes, are as follows:

RECONCILIATION OF DEFERRED INCOME TAX, NET	2004	2003 As Restated	2003 As Presented
Deferred income tax under Mexican GAAP	Ps. 2,804	Ps. 3,862	Ps. 3,909
Deferred income tax of Coca-Cola FEMSA	(27)	(265)	—
US GAAP adjustments:			
Start-up expenses	(43)	(40)	(40)
Restatement of imported equipment	—	109	76
Capitalization of integral result of financing	116	142	167
Financial instruments	(28)	(53)	(88)
Pension plan	5	15	17
Tax deduction of employee profit sharing	(297)	—	—
Restated of prior years financial statement	—	—	131
Total US GAAP adjustments	(247)	173	263
Deferred income tax, under US GAAP	Ps. 2,530	Ps. 3,770	Ps. 4,172

The total deferred income tax under US GAAP includes the corresponding current portion as of December 31, 2004 and December 31, 2003 of Ps. 1,508 and Ps. 1,345, respectively.

CHANGES IN THE BALANCE OF DEFERRED INCOME TAX	2004	2003 As Restated	2003 As Presented
Initial balance	Ps. 3,770	Ps. 3,973	Ps. 4,949
Panamco acquisition effect	—	—	(983)
Financial instruments	(1)	(99)	(133)
Provision for the year	(781)	15	259
Additional labor liability over unrecognized net transition obligation	(28)	(47)	—
Change in the statutory income tax rate	(430)	(72)	(72)
Cumulative translation adjustment	—	—	107
Inflation adjustment	—	—	45
Ending balance	Ps. 2,530	Ps. 3,770	Ps. 4,172

RECONCILIATION OF DEFERRED EMPLOYEE PROFIT SHARING	2004	2003 As Restated	2003 As Restated
Deferred employee profit sharing under Mexican GAAP	Ps. —	Ps. —	Ps. —
US GAAP adjustments:			
Allowance for doubtful accounts	(10)	(9)	(9)
Inventories	471	416	528
Prepaid expenses	18	22	22
Property, plant and equipment	751	900	1,358
Capitalization of interest expense	41	42	43
Intangible and other assets	(50)	(85)	(35)
Pension plan	(73)	(47)	(75)
Seniority premiums	(11)	(14)	(14)
Post-retirement medical services	(20)	(15)	(15)
Other reserves	(56)	(41)	(117)
Total US GAAP adjustments	1,061	1,169	1,686
Deferred employee profit sharing under US GAAP	Ps. 1,061	Ps. 1,169	Ps. 1,686

The total deferred employee profit sharing under US GAAP includes the corresponding current portion as of December 31, 2004 and December 31, 2003 of Ps. 479 and Ps. 429, respectively.

CHANGES IN THE BALANCE OF DEFERRED EMPLOYEE PROFIT SHARING	2004	2003 *As Restated*	2003 *As Presented*
Initial balance	Ps. 1,169	Ps. 1,340	Ps. 1,783
Panamco acquisition effect	—	—	38
Provision for the year	(99)	(171)	(135)
Additional labor liability over unrecognized net transition obligation	(9)	—	—
Ending balance	Ps. 1,061	Ps. 1,169	Ps. 1,686

J) PENSION PLAN:

Under Mexican GAAP, the liabilities for employee benefits are determined using actuarial computations in accordance with Bulletin D-3, which is substantially the same as US GAAP SFAS No. 87, "Employers' Accounting for Pensions," except for the initial year of application of both bulletins, which generates a difference in the unamortized prior service cost and in the amortization expense.

In January 1997, as a result of the application of inflationary accounting, Mexican GAAP determined that labor obligations are non-monetary liabilities and required the application of real, instead of nominal, interest rates in actuarial calculations. These changes required recalculation of the accumulated transition obligation, and the difference in the transition obligation represents the sum of the actuarial gains or losses since the first year that labor obligations have been calculated.

The Company uses the same real interest rate for both US GAAP and Mexican GAAP. As a result, the transition obligation has been recalculated and the difference is being amortized over the average life of employment (14 years) of the Company.

Under Mexican GAAP and US GAAP, there is no difference in the liabilities for seniority premiums and post-retirement medical benefits.

The Company has prepared a study of pension costs under US GAAP based on actuarial calculations using the same assumptions applied under Mexican GAAP (see Note 16).

The reconciliation of net pension cost and liability, are as follows:

NET PENSION COST	2004	*As Restated* 2003	*As Restated* 2002	*As Presented* 2003	*As Presented* 2002
Net pension cost recorded under Mexican GAAP	Ps. 214	Ps. 172	Ps. 135	Ps. 172	Ps. 135
Net pension cost of Coca-Cola FEMSA	(54)	(36)	(13)	—	—
US GAAP adjustments:					
Amortization of unrecognized transition obligations	28	18	16	20	17
Total US GAAP adjustments	28	18	16	20	17
Net pension cost under US GAAP	Ps. 188	Ps. 154	Ps. 138	Ps. 192	Ps. 152

PENSION LIABILITY		2004		2003 As Restated		2003 As Presented
Pension liability under Mexican GAAP	Ps.	1,572	Ps.	1,609	Ps.	1,092
Pension liability of Coca-Cola FEMSA		(588)		(589)		—
US GAAP adjustments:						
Unrecognized net transition obligation		(13)		(44)		(49)
Restated of prior years financial statement		—		—		(34)
Total US GAAP adjustments		(13)		(44)		(83)
Pension liability under US GAAP	Ps.	971	Ps.	976	Ps.	1,009

K) MINORITY INTEREST:

Under Mexican GAAP, the minority interest in consolidated subsidiaries is presented as a separate component within stockholders' equity in the consolidated balance sheet.

Under US GAAP, this item must be excluded from consolidated stockholders' equity in the consolidated balance sheet. Additionally, the minority interest in the net earnings of consolidated subsidiaries is excluded from consolidated net income.

The US GAAP adjustments shown in Note 27 A) and B) are calculated on a consolidated basis. Therefore, the minority interest effect is presented as a separate line item, in order to obtain net income and stockholders' equity.

The minority interest in US GAAP adjustments are as follows:

INCOME STATEMENT		2004[1]		As Restated 2003		As Restated 2002		As Presented 2003		As Presented 2002
Restatement of imported machinery and equipment	Ps.	—	Ps.	7	Ps.	12	Ps.	4	Ps.	20
Capitalization of the integral result of financing		5		11		10		14		11
Financial instruments		7		(31)		9		(35)		11
Deferred income tax		(11)		(23)		(87)		(67)		(114)
Deferred employee profit sharing		(12)		(40)		(1)		(20)		52
Pension plan cost		3		2		3		2		3
Deferred promotional expenses		—		—		—		57		5
Goodwill		—		—		—		—		(20)
	Ps.	(8)	Ps.	(74)	Ps.	(54)	Ps.	(45)	Ps.	(32)

(1) Represents the US GAAP adjustments corresponding to the FEMSA Cerveza's minority interest until the date of acquisition of the 30% of FEMSA Cerveza (see Note 2).

STOCKHOLDERS' EQUITY		2004		2003 As Restated		2003 As Presented
Restatement of imported machinery and equipment	Ps.	—	Ps.	9	Ps.	64
Capitalization of the integral result of financing		—		(123)		(164)
Financial instruments		—		16		72
Deferred income tax		—		13		(11)
Deferred employee profit sharing		—		228		509
Accumulated pension plan liability		—		(1)		(3)
Deferred promotional expenses		—		—		63
Goodwill		—		—		(22)
	Ps.	—	Ps.	142	Ps.	508

L) FEMSA'S MINORITY INTEREST ACQUISITION:

In accordance with Mexican GAAP, the Company applied the entity theory to the acquisition of the minority interest by FEMSA in May 1998, through an exchange offer. Accordingly, no goodwill was created as a result of such acquisition and the difference between the book value of the shares acquired by FEMSA and the FEMSA shares exchanged was recorded as additional paid-in capital. The direct out-of-pocket costs identified with the purchase of minority interest are treated as an additional purchase cost and included in other expenses.

In accordance with US GAAP, the acquisition of a minority interest must be accounted under the purchase method, using the market value of shares received by FEMSA in the exchange offer to determine the cost of the acquisition of such minority interest and the related goodwill. In accordance with SFAS No. 142 (see Note 26 E), goodwill is no longer amortizable. Under US GAAP, the direct out-of-pocket costs identified with the purchase of minority interest are treated as additional goodwill.

Additionally, SFAS No. 142 requires the allocation of all goodwill to the related reporting units. The allocation of the goodwill generated by the previously mentioned acquisition of minority interest is as follows:

FEMSA Cerveza	Ps.	8,357
Coca-Cola FEMSA		4,261
FEMSA Empaques		2,055
FEMSA Comercio		973
	Ps.	15,646

M) STATEMENT OF CASH FLOWS:

Under Mexican GAAP, the Company presents a consolidated statement of changes in financial position in accordance with Bulletin B-12, "Estado de Cambios en la Situación Financiera" (Statement of Changes in Financial Position), which identifies the generation and application of resources by the differences between beginning and ending financial statement balances in constant Mexican pesos. Bulletin B-12 also requires that monetary and foreign exchange gains and losses be treated as cash items for the determination of resources generated by operations.

In accordance with US GAAP, the Company follows SFAS No. 95, "Statement of Cash Flows," which is presented in historical Mexican pesos, without the effects of inflation (see Note 26 N).

N) FINANCIAL INFORMATION UNDER US GAAP:

CONSOLIDATED BALANCE SHEETS		2004		2003 As Restated		2003 As Presented
ASSETS						
Current Assets:						
Cash and cash equivalents	Ps.	3,220	Ps.	5,207	Ps.	8,134
Accounts receivable		2,759		2,946		4,338
Inventories		5,411		5,081		7,229
Recoverable taxes		249		—		674
Prepaid expenses		537		297		662
Total current assets		12,176		13,531		21,037
Investments in shares:						
Coca-Cola FEMSA		13,378		10,566		—
Other investments		341		494		988
Property, plant and equipment		25,088		25,534		45,110
Intangible assets		26,004		16,593		52,064
Other assets		6,033		5,732		6,499
TOTAL ASSETS	Ps.	83,020	Ps.	72,450	Ps.	125,698
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current Liabilities:						
Bank loans	Ps.	5,777	Ps.	810	Ps.	2,554
Interest payable		81		32		425
Current maturities of long-term debt		476		1,412		2,722
Suppliers		4,105		4,068		7,337
Deferred taxes		1,987		1,774		2,369
Taxes payable		1,239		881		1,489
Accounts payable, accrued expenses and other liabilities		1,477		1,306		3,056
Financial instruments		94		162		265
Total current liabilities		15,236		10,445		20,217
Long-Term Liabilities:						
Bank loans and notes payable		14,570		7,479		35,076
Deferred taxes		1,604		3,165		3,489
Labor liabilities		1,288		1,255		1,909
Other liabilities		220		536		2,601
Total long-term liabilities		17,682		12,435		43,075
Total liabilities		32,918		22,880		63,292
Minority interest in consolidated subsidiaries		50		5,349		18,108
Stockholders' equity		50,052		44,221		44,298
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps.	83,020	Ps.	72,450	Ps.	125,698

CONSOLIDATED INCOME STATEMENTS	2004	As Restated 2003	As Restated 2002	As Presented 2003	As Presented 2002
Net sales	Ps. 49,390	Ps. 44,505	Ps. 40,165	Ps. 79,520	Ps. 57,691
Other operating revenues	412	113	105	309	214
Total revenues	49,802	44,618	40,270	79,829	57,905
Cost of sales	27,320	24,360	21,654	41,491	29,008
Gross profit	22,482	20,258	18,616	38,338	28,897
Operating expenses:					
Administrative	4,098	3,803	3,892	6,290	5,997
Selling	12,996	11,634	9,758	19,802	13,724
	17,094	15,437	13,650	26,092	19,721
Income from operations	5,388	4,821	4,966	12,246	9,176
Integral result of financing:					
Interest expense	(1,184)	(834)	(599)	(2,554)	(969)
Interest income	275	492	211	731	488
Foreign exchange gain (loss)	23	(530)	(571)	(2,663)	(356)
Gain on monetary position	447	87	4	1,004	425
	(439)	(785)	(955)	(3,482)	(412)
Other income (expenses), net	85	208	(220)	(691)	(394)
Income before income tax and tax on assets	5,034	4,244	3,791	8,073	8,370
Income tax and tax on assets	672	1,583	1,298	2,973	3,117
Income before minority interest and affiliated companies	4,362	2,661	2,493	5,100	5,253
Minority interest in results of consolidated subsidiaries	(469)	(384)	(621)	(1,691)	(1,973)
Participation in:					
Coca-Cola FEMSA	2,632	1,132	1,408	—	—
Other affiliated companies	63	32	92	32	92
	2,695	1,164	1,500	32	92
Net income	Ps. 6,588	Ps. 3,441	Ps. 3,372	Ps. 3,441	Ps. 3,372
Other comprehensive income	(206)	(810)	(895)	(733)	(895)
Comprehensive income	Ps. 6,382	Ps. 2,631	Ps. 2,477	Ps. 2,708	Ps. 2,477
Net income per share (constant Mexican pesos):					
Per Series “B” share	Ps. 1.11	Ps. 0.58	Ps. 0.57	Ps. 0.58	Ps. 0.57
Per Series “D” share	1.39	0.72	0.71	0.72	0.71

CONSOLIDATED CASH FLOWS [1]	2004	As Restated 2003	As Restated 2002	As Presented 2003	As Presented 2002
Cash flows from operating activities:					
Net income	Ps. 6,588	Ps. 3,441	Ps. 3,372	Ps. 4,879	Ps. 4,726
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Minority interest	469	384	621	—	—
Inflation effect	(137)	(84)	(156)	—	—
Depreciation	1,776	1,712	1,725	2,898	2,422
Amortization	1,919	1,691	1,271	1,962	1,451
Other non-cash charges	274	890	198	1,020	676
Changes in operating assets and liabilities:					
Participation in affiliated companies	(2,695)	(1,006)	(1,438)	—	—
Deferred taxes	(605)	(235)	(553)	(315)	(421)
Working capital investment	(733)	(725)	150	(1,350)	355
Recoverable taxes, net	(691)	954	(181)	(238)	(225)
Interest payable	56	(50)	(10)	119	(1)
Labor obligations	306	(28)	(77)	(54)	(101)
Net cash flows provided by operating activities	6,527	6,944	4,922	8,921	8,882
Cash flows from investing activities:					
Property, plant and equipment	(5,181)	(5,037)	(3,980)	(7,173)	(5,299)
Acquisition of 30% of FEMSA Cerveza	(14,694)	—	—	—	—
Capital contribution to Coca-Cola FEMSA	—	(2,786)	—	(22,313)	—
Other assets	968	(292)	(74)	(231)	(100)
Net cash flows used in investing activities	(18,907)	(8,115)	(4,054)	(29,717)	(5,399)
Cash flows from financing activities:					
Bank loans	11,514	(1,376)	4,512	13,686	4,493
Dividends declared and paid	(531)	(1,043)	(820)	(1,043)	(1,095)
Dividends received from Coca-Cola FEMSA	238	—	286	—	—
Other financial transactions	(571)	101	666	643	480
Net cash flows provided by (used in) financing activities	10,650	(2,318)	4,644	13,286	3,878
Effect of exchange rate changes on cash	—	—	—	—	54
Cash and cash equivalents:					
Net decrease	(1,730)	(3,489)	5,512	(7,510)	7,415
Cash received in acquisition of Panamco	—	—	—	633	—
Initial balance	4,950	8,439	2,927	14,610	7,195
Ending balance	Ps. 3,220	Ps. 4,950	Ps. 8,439	Ps. 7,733	Ps. 14,610
Supplemental cash flow information:					
Interest paid	Ps. 902	Ps. 507	Ps. 323	Ps. 1,647	Ps. 364
Income tax and tax on assets paid	(2,116)	1,412	1,827	2,995	3,629

(1) Expressed in millions of historical Mexican pesos.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	2004	2003	
		As Restated	*As Presented*
Stockholders' equity at the beginning of the year	**Ps. 44,221**	Ps. 40,217	Ps. 40,217
Dividends declared and paid	**(551)**	(430)	(430)
Participation in the capital contribution of The Coca-Cola Company in Coca-Cola FEMSA	**—**	1,803	1,803
Financial instruments	**107**	(406)	(406)
Additional labor liability over unrecognized net transition obligation	**(7)**	(77)	—
Cumulative translation adjustment	**179**	(100)	(100)
Result of holding non-monetary assets	**(485)**	(227)	(227)
Other comprehensive income	**(206)**	(810)	(733)
Net income	**6,588**	3,441	3,441
Stockholders' equity at the end of the year	**Ps. 50,052**	Ps. 44,221	Ps. 44,298

NOTE 27. RECONCILIATION OF MEXICAN GAAP TO US GAAP.

A) RECONCILIATION OF NET INCOME:

		As Restated		*As Presented*	
	2004	2003	2002	2003	2002
Net majority income under Mexican GAAP	**Ps. 5,831**	Ps. 3,302	Ps. 3,100	Ps. 3,302	Ps. 3,100
US GAAP adjustments:					
Participation in Coca-Cola FEMSA (Note 26 A)	**162**	(38)	(19)	—	—
Restatement effect	**—**	—	—	(13)	5
Start-up expenses (Note 26 D)	**(24)**	(29)	(25)	(29)	(25)
Intangible assets and goodwill (Note 26 E)	**14**	15	19	15	—
Restatement of imported machinery and equipment (Note 26 F)	**(13)**	(120)	(108)	(113)	(124)
Capitalization of the integral result of financing (Note 26 G)	**(23)**	(19)	(41)	(25)	(42)
Financial instruments (Note 26 H)	**72**	136	3	144	(2)
Deferred income tax (Note 26 I)	**506**	104	463	187	516
Deferred employee profit sharing (Note 26 I)	**99**	182	50	144	(56)
Pension plan (Note 26 J)	**(28)**	(18)	(16)	(20)	(17)
Minority interest (Note 26 K)	**(8)**	(74)	(54)	(45)	(32)
Deferred promotional expenses (Note 26 C)	**—**	—	—	(106)	(11)
FEMSA's minority interest acquisition (Note 26 K)	**—**	—	—	—	60
Total US GAAP adjustments	**757**	139	272	139	272
Net income under US GAAP	**Ps. 6,588**	Ps. 3,441	Ps. 3,372	Ps. 3,441	Ps. 3,372

Under US GAAP, the monetary position effect of the income statement adjustments is included in each adjustment, except for the capitalization of the integral result of financing, intangible assets and goodwill, as well as pension plan liabilities, which are non-monetary.

B) RECONCILIATION OF STOCKHOLDERS' EQUITY:

		2004		2003		
				As Restated		*As Presented*
Majority stockholders' equity under Mexican GAAP	Ps.	35,324	Ps.	30,078	Ps.	30,155
US GAAP adjustments:						
Restatement of prior period financial statement		—		—		(181)
Participation in Coca-Cola FEMSA (Note 26 A)		(60)		(587)		—
Start-up expenses (Note 26 D)		(144)		(120)		(120)
Intangible assets and goodwill (Note 26 E)		48		34		75
Restatement of imported machinery and equipment (Note 26 F)		1		333		234
Capitalization of the integral result of financing (Note 26 G)		409		432		507
Financial instruments (Note 26 H)		(94)		(162)		(266)
Deferred income tax (Note 26 I)		247		(173)		(263)
Deferred employee profit sharing (Note 26 I)		(1,061)		(1,169)		(1,686)
Pension plan (Note 26 J)		13		44		83
Minority interest (Note 26 K)		—		142		508
Deferred promotional expenses		—		—		(117)
FEMSA's minority interest acquisition (Note 26 L)		15,369		15,369		15,369
Total US GAAP adjustments		14,728		14,143		14,143
Stockholders' equity under US GAAP	Ps.	50,052	Ps.	44,221	Ps.	44,298

C) RECONCILIATION OF COMPREHENSIVE INCOME:

			As Restated				*As Presented*			
		2004		2003		2002		2003		2002
Majority comprehensive income under Mexican GAAP	Ps.	5,797	Ps.	3,439	Ps.	2,757	Ps.	3,516	Ps.	2,757
US GAAP adjustments:										
Net income (Note 27 A)		757		139		272		139		272
Financial instruments		107		(406)		—		(406)		—
Translation adjustment		259		137		(147)		137		(389)
Result of holding non-monetary assets		(538)		(678)		(405)		(678)		(163)
Comprehensive income under US GAAP	Ps.	6,382	Ps.	2,631	Ps.	2,477	Ps.	2,708	Ps.	2,477

NOTE 28. FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IN EFFECT.

A) IN MEXICAN GAAP:

The Instituto Mexicano de Contadores Públicos ("IMCP") issued the following bulletins whose application is mandatory effective January 1, 2005, except as otherwise indicated, the Company does not anticipate that this new standards will have a significant impact on its financial position or results of operations.

- **Bulletin D-3, "Obligaciones laborales" (Labor obligations) ("Bulletin D-3"):**

  Revised Bulletin D-3 establishes:
  - Accounting standards for post-retirement benefits other than pension, which in accordance with Circular No. 50, were previously regulated by International Accounting Standard No. 19;
  - Accounting standards for the treatment of reductions and early extinguishment of post retirement benefits other than pensions, this requirement is mandatory as of 2004; and
  - Accounting standards for severance payments resulting from a restructuring and severance payments resulting from situations other than a restructuring.

  The Company is evaluating the impact of this new standard.

- **Bulletin C-10, "Instrumentos financieros derivados y operaciones de cobertura" (Derivative financial instruments and hedging transactions) ("Bulletin C-10"):**
  Bulletin C-10 establishes detailed accounting guidelines for the valuation, presentation and disclosure of derivative financial instruments. In addition, it establishes the conditions to consider financial instruments as hedging, and classifies hedging for purposes of defining whether the gain or loss that results from the valuation of hedging instruments at fair value should be recorded in net income or other comprehensive income.

  This new standard substantially conforms Mexican GAAP to US GAAP.

- **Bulletin C-2, "Documento de Adecuaciones al Boletín C-2" ("Amendments to Bulletin C-2"):**
  Amendments to Bulletin C-2 establish that the gain or loss attributable to changes in the fair value of financial instruments classified as available for sale and their monetary effect, should be recognized in other comprehensive income, and upon their sale should be recognized in net income. Bulletin C-2 does not allow the transfer of financial instruments originally classified as trading instruments to be available for sale or held until maturity or vice-versa. Amendments to Bulletin C-2 also incorporates detailed rules to recognize impairment in the value of financial instruments. This revised standard substantially conforms Mexican GAAP to US GAAP.

- **Bulletin B-7, "Adquisiciones de Negocios" (Businesses Acquisition) ("Bulletin B-7"):**
  Bulletin B-7 establishes:
  - The purchase method as the only acceptable method to account for businesses acquisitions and investment in affiliated companies. International Accounting Standard No. 22 "Business Combinations," will no longer be supplemental under Mexican GAAP;
  - Goodwill is no longer subject to amortization and instead is subject to an impairment test, in accordance with Bulletin C-15;
  - Specific standards for the acquisition of minority interest and asset transfers or share exchanges between companies under common control; and
  - Supplemental guidance for the accounting for intangible assets recognized in a business acquisition in accordance with Bulletin C-8.

  This new standard substantially conforms Mexican GAAP to US GAAP.

B) IN US GAAP:

The following new accounting standards have been issued under US GAAP, the application of which is required as indicated. The Company does not anticipate that these new standards will have a significant impact on its financial position or results of operations.

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

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

- **"Exchanges of Nonmonetary Assets—An Amendment of Accounting Principles Board Opinion No. 29" or SFAS No. 153:** In December 2004, the FASB issued SFAS No. 153, which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. SFAS No. 153 is effective for nonmonetary assets exchanges occurring in fiscal periods beginning after June 15, 2005.

FEMSA Headquarters

FEMSA Corporate Offices
General Anaya No. 601 Pte.
Col. Bella Vista
Monterrey, Nuevo León
México, C.P. 64410
Phone: (52) 81 8328-6000
Fax: (52) 81 8328-6080

Coca-Cola FEMSA

MÉXICO
Guillermo González Camarena No. 600
Centro Cd. Santa Fé
Delegación Álvaro Obregón
Mexico City, C.P. 01210
Phone: (52) 55 5081-5100
Fax: (52) 55 5292-3474

LATINCENTRO
150 mts. Este de la Guardia Rural
Calle Blancos, Guadalupe
San José, Costa Rica
Phone: (506) 247-2000
Fax: (506) 247-2061

MERCOSUR
Av. Eng. Alberto de Zagottis No. 352
São Paulo, Brazil
Cep. 04675
Phone: (55) 11 2702-5500
Fax: (55) 11 2102-5554

FEMSA Cerveza
Ave. Alfonso Reyes No. 2202 Nte.
Col. Bella Vista
Monterrey, Nuevo León
México, C.P. 64442
Phone: (52) 81 8328-5000
Fax: (52) 81 8328-5013

FEMSA Comercio (Oxxo)
Edison No. 1235 Nte.
Col. Talleres
Monterrey, Nuevo León
México, C.P. 64480
Phone: (52) 81 8389-2121
Fax: (52) 81 8389- 2144

FEMSA Insumos Estratégicos
General Anaya No. 601 Pte.
Col. Bella Vista
Monterrey, Nuevo León
México, C.P. 64410
Phone: (52) 81 8328-6600
Fax: (52) 81 8328-6601

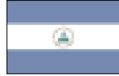
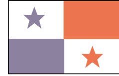
COUNTRY	**MEXICO**			**BRAZIL**	**ARGENTINA**
COMPANY	FEMSA CERVEZA	FEMSA COMERCIO			
FEMSA OWNERSHIP (%)	100	100			
SALES VOLUME	25,682[2]		989.8[3]	270.8[3]	144.3[3]
REVENUES[4]	24,970.4	22,838.4	26,658.3	5,137.1	2,451
OPERATING INCOME[4]	5,293[5]	1,025[5]	5,519.5	458.2	382.9
BREWERIES/PLANTS	6	3,466 stores	12	3	1
DISTRIBUTION FACILITIES	438		109	12	5
HEAD COUNT	19,748	7,806			

(1) As of December 31, 2004, the remaining 39.6% and 14.7% were owned by The Coca-Cola Company and by the public, respectively.
(2) Thousands of hectoliters.
(3) Millions of unit cases (one unit case equals 24 8-ounce bottles).
(4) Expressed in millions of Mexican pesos as of December 31, 2004.
(5) Before management fee.
(6) Includes third-party head count.

COMPETITIVE STRENGTH

DISCIPLINED EXECUTION

EFFECTIVE PORTFOLIO MANAGEMENT

	GUATEMALA	 NICARAGUA	COSTA RICA	 PANAMA	COLOMBIA	VENEZUELA
		COCA-COLA FEMSA				
		45.7[1]				
		110.6[3]			167.1[3]	172.7[3]
		3,459			4,065.5	4,775.6
		418.8			433	374.6
		4			6	4
		37			38	34
	56,238[6]					

MAIN BRANDS

Soft Drinks

Coca-Cola
Coca-Cola Light
Sprite
Sprite Light
Sprite 0
Fanta
Fanta Light
Manzana Lift
Ciel
Ciel Mineralizada
Beat
Mundet
Delaware Punch
Senzao
Fresca
Powerade
Mickey Aventuras
Simba
Sintonía
Kuat
Kapo
Schweppes
Taí
Quatro
Crush
Crush Light
Hi-C
Kin
Frescolita
Shangri-La
Dasani
Kist

Beer

Sol
Tecate
Carta Blanca
Indio
Tecate Light
XX Ambar
XX Lager
Superior
Bohemia
Noche Buena
Kloster
Coors Light

Stores

Oxxo

FMX
LISTED
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CONTACT INFORMATION

CORPORATE HEADQUARTERS
FEMSA
General Anaya 601 Pte.
Colonia Bella Vista
Monterrey, Nuevo León
México, C.P. 64410
Phone: (52) 81-8328-6000

INTERNATIONAL LEGAL COUNSEL OF THE COMPANY
Carlos E. Aldrete
General Anaya 601 Pte.
Colonia Bella Vista
Monterrey, Nuevo León
México, C.P. 64410
Phone: (52) 81-8328-6180

INDEPENDENT ACCOUNTANTS
Deloitte.
Represented by Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Lázaro Cárdenas 2321 Pte.
Residencial San Agustín
Garza García, Nuevo León
México, C.P. 66220
Phone: (52) 81-8133-7300

STOCK EXCHANGE AND SYMBOL
Fomento Económico Mexicano, S.A. de C.V. stock trades on the Bolsa Mexicana de Valores (BMV) in the form of units under the symbols FEMSA UBD and FEMSA UB. The FEMSA UBD units also trade on The New York Stock Exchange, Inc. (NYSE) in the form of ADRs under the symbol FMX.

DEPOSITORY BANK AND REGISTRAR
The Bank of New York
P.O. Box 11256
Church Street Station
New York, NY 10286-1258
Phone: 1 (888) BNY-DDRS
(269-2377)
Phone: 1 (610) 382-7835
e-mail: shareowner-svcs@bankofny.com

INVESTOR RELATIONS
Alan Alanís
Emily Klingbeil
Phone: (52) 81-8328-6167
Fax: (52) 81-8328-6080
e-mail: investor@femsa.com.mx

CORPORATE COMMUNICATION
Jaime Toussaint
Carolina Alvear
Phone: (52) 81-8328-6148
Fax: (52) 81-8328-6117
e-mail: comunicacion@femsa.com

FOR MORE INFORMATION, VISIT US AT:
www.femsa.com

The FEMSA 2004 Annual Report may contain certain forward-looking statements concerning FEMSA and its subsidiaries' future performance and should be considered as good faith estimates of FEMSA and its subsidiaries. These forward-looking statements reflect management's expectations and are based upon currently available data. Actual results are subject to further events and uncertainties which could materially impact the Company's subsidiaries' actual performance.

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1995-2004

A DECADE OF DISCIPLINED, CONSISTENT AND PROFITABLE GROWTH

FEMSA

Apartado Postal 2001, Monterrey, N.L., México, 64410

www.femsa.com investor@femsa.com.mx