



FEMSA

Annual Report 2002

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Think you know us?

You probably know that FEMSA is the largest beverage company in Latin America, with sales of US \$5.0 billion in 2002. You may be aware that our soft drink subsidiary, Coca-Cola FEMSA, is the most profitable Coke bottler on the planet, with EBITDA margins of 30.7%. Or you may have read somewhere that nobody exports more cans of beer to the United States than we do. But did you know that our consolidated revenues have grown at a compound rate of 9.2% in US dollars for the last ten years? Were you aware that our consolidated operating profit has risen even faster, at a compound rate of 15.5% in US dollars for the same period? We have grown our operating income at a faster rate than every beverage company in the Standard and Poor's 500 Index. And had you noticed that we have achieved these goals while maintaining one of the healthiest balance sheets around?

Economic crises come and go. Currencies fluctuate. Markets rise and fall. Through it all, we continue to consolidate our company as a leader in the beverage space, not only in Mexico but also internationally, focusing on satisfying the needs of our consumers and on creating value for our shareholders.

Pop the can open, read on and discover.



SOL

Financial Highlights FEMSA

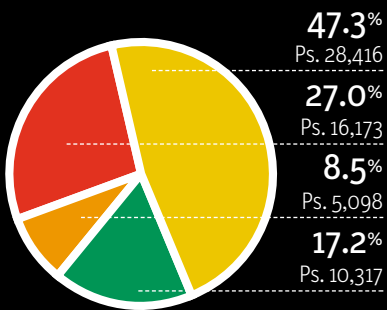
(Millions of 2002 Pesos)

| | millions of US Dollars ⁽¹⁾ 2002 | 2002 | 2001 | % change | 2000 | % change |
|-------------------------------------|--|------------|--------|----------|--------|----------|
| Total revenues | \$ 5,062 | Ps. 52,941 | 50,097 | 5.7 | 47,869 | 4.7 |
| Income from operations | 907 | 9,491 | 8,533 | 11.2 | 7,663 | 11.4 |
| Net Income | 441 | 4,613 | 4,980 | (7.4) | 3,827 | 30.1 |
| Net majority income | 271 | 2,837 | 3,393 | (16.4) | 2,748 | 23.5 |
| Net minority income | 170 | 1,776 | 1,587 | 11.9 | 1,079 | 47.1 |
| Total assets | 5,737 | 60,004 | 51,136 | 17.3 | 48,115 | 6.3 |
| Total liabilities | 2,600 | 27,191 | 21,131 | 28.7 | 21,398 | (1.2) |
| Stockholders' equity | 3,137 | 32,813 | 30,005 | 9.4 | 26,717 | 12.3 |
| Capital expenditures | 530 | 5,540 | 5,314 | 4.3 | 4,571 | 16.2 |
| Book value per share ⁽²⁾ | 0.415 | 4.345 | 3.997 | 8.7 | 3.542 | 12.9 |
| Net income per share ⁽²⁾ | 0.051 | 0.536 | 0.641 | (16.4) | 0.518 | 23.7 |
| Personnel | | 41,656 | 41,500 | 0.4 | 43,201 | (3.9) |

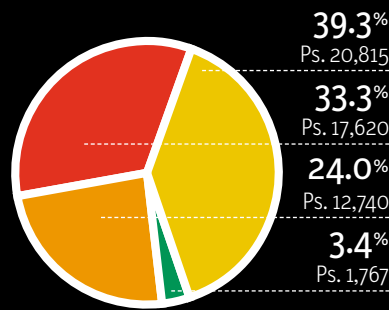
(1) Exchange rate: 10.459 Pesos/US Dollar as of December 31, 2002

(2) Data in Mexican Pesos, based on 5,297,310,450 outstanding shares

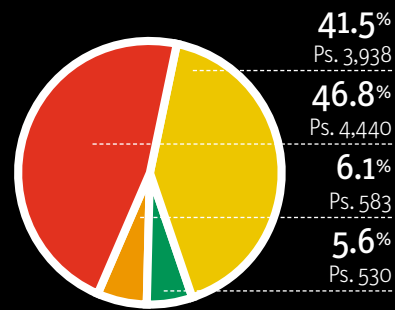
Total Assets / Ps. 60,004



Total Revenues / Ps. 52,941



Income from Operations / Ps. 9,491

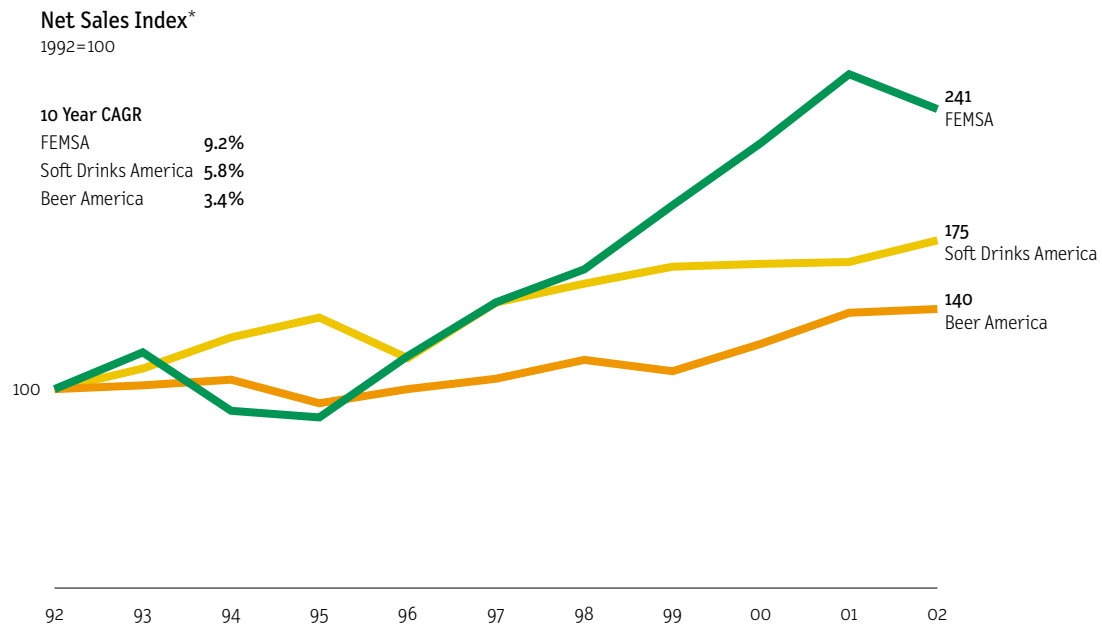


● FEMSA Cerveza
 ● Coca-Cola FEMSA
 ● FEMSA Comercio
 ● Other Businesses

Consistent

Track Record of Growth

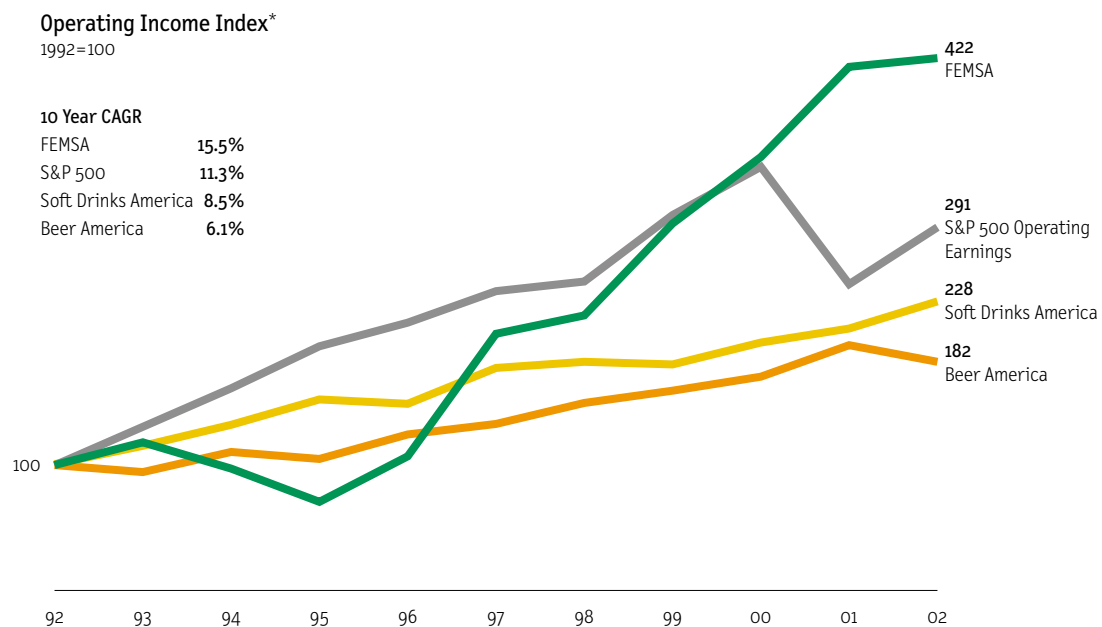
Year after year, we continue to outpace our peers in expanding our business, demonstrating resilience through economic downturns.



Continuing

History of Profitability

Our business model is geared to produce more profit for each dollar of sales. Our exceptional team continuously focuses on cost containment and increasing returns.



* Total revenues and operating income are in nominal US Dollars or converted to US Dollars. Beer America index includes financial indicators of the following companies: FEMSA, Grupo Modelo, AmBev, Anheuser Busch, Coors. Soft Drink America index includes financial indicators of the following companies: Coca-Cola FEMSA, Panamco, Pepsico, Pepsi Bottling Group, Coca-Cola Company, Coca-Cola Enterprises. Source: Analyst reports, company data and FEMSA estimates.

Dear Shareholder

2002 capped an exceptional decade of continuing growth and profitability for our company. During that 10-year period, our consolidated total revenues, operating income and operating cash flow (EBITDA) increased in dollar terms at a compounded annual growth rate of 9.2%, 15.5%, and 15.3% respectively.

The year's challenging business climate did not distract us from making considerable progress on our strategic goals. Indeed, the lean environment brought out the best in us; we expanded our operating margin to 17.9% of total revenues—a record—despite prolonged economic adversity, capital market volatility, and heightened geopolitical risk.

Furthermore, we continued to strengthen our beverage model by pursuing attractive avenues of growth in our core operations. In late December we announced that Coca-Cola FEMSA, our bottling subsidiary, had reached a definitive agreement to acquire Panamerican Beverages Inc., better known as Panamco, the largest Coca-Cola bottler in Latin America. As you read these pages, we will be well ahead on the road to close this acquisition. Once the transaction has closed, Coca-Cola FEMSA will be the second largest Coca-Cola bottler in the world, and the largest one outside the United States, with operations in nine Latin American countries. I am confident that Coca-Cola FEMSA's talented management team will be able to create significant value for you, our shareholders, by working in the newly acquired territories towards the achievement of a level of operating excellence that approaches that of our current franchises. I am also convinced that the potential for growth that this transaction brings to us, clearly outweighs the challenges.

Positive Results

In 2002 we delivered positive operating and financial results for you. Our consolidated total revenues grew to Ps. 52,941 million (US \$5.062 billion), an increase of 5.7%. Our consolidated operating income rose to Ps. 9,491 million (US \$907 million), up 11.2%. Our operating margin expanded 90 basis points to 17.9% of total revenues. We recorded a consolidated net income of Ps. 4.613 billion (US\$441 million) and earnings per share of Ps. 0.536. And, our return on invested capital was 13.5%, compared to 12.2% in 2001.

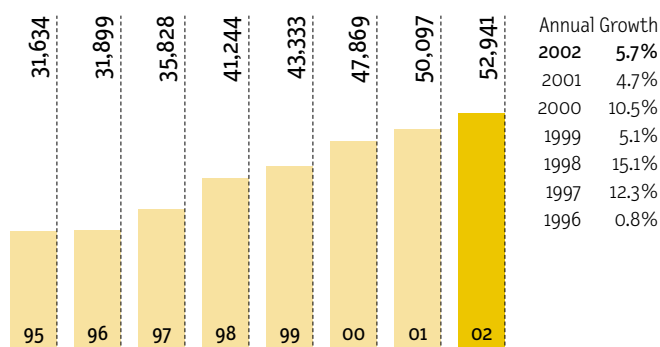
Outlook

We manage our company with a view for the long term. Though the near-term economic picture remains uncertain, we believe the evolving market and industry landscape offers important opportunities for continued growth in our core beverage businesses.

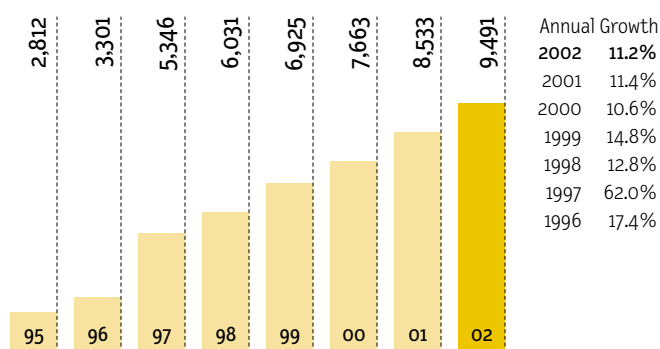
As the Panamco acquisition demonstrates, Coca-Cola FEMSA is uniquely well positioned to benefit from continuing industry consolidation. In many ways, our *Coca-Cola* bottling business is an ideal consolidator with a proven track record of extracting value from new franchises, impeccable performance in tough markets such as Argentina, and the infrastructure and scale to execute both large and small transactions. We have the systems, practices, and people in place to enter and rapidly integrate any new market territories. Furthermore, the transaction will provide FEMSA with access to a truly continental platform, which we will seek to leverage fully.

The demographics are also on our side. Almost 40% of Mexico's population is under the age of 18, and over the next decade, more than one million people will join the ranks of potential beer drinkers each year. Moreover, as the Mexican beer industry evolves, we believe these young and increasingly discriminating consumers will place more value on differentiated product offerings. This trend should offer us a sustainable advantage in the domestic market given FEMSA Cerveza's diverse portfolio of over 45 different products.

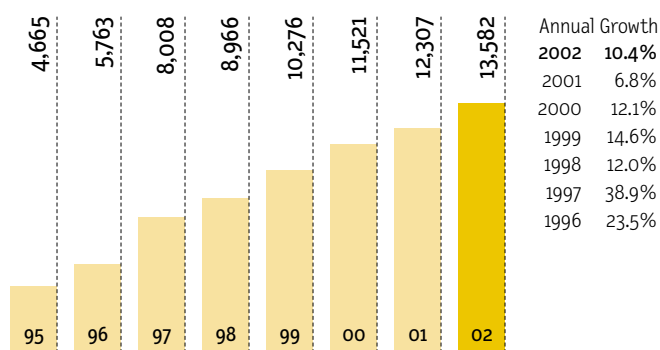
Total Revenues
(millions of 2002 pesos)



Operating Income
(millions of 2002 pesos)



EBITDA
(millions of 2002 pesos)

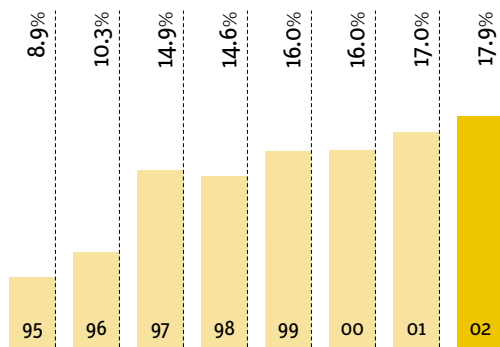


Fundamental Improvement

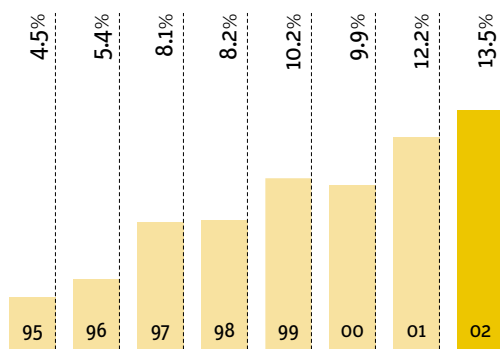
As I noted last year, we are in the midst of a major cultural shift at FEMSA: we are transforming ourselves into a superior and more unified customer-focused organization. As a result of this process, we are developing the competencies that will make us even stronger and more profitable: excellent execution, superior brand-building capability, efficient asset utilization, and a powerful information systems infrastructure. At the same time, we are reinforcing the values that underscore our more than 100-year history of quality, integrity, and long-standing commitment to social responsibility.

I am pleased to report marked improvement across our major operations; I am particularly proud of the hard work, discipline, and unwavering dedication of our people—team FEMSA—in the face of a difficult operating environment. We have the skills and momentum to realize continuing growth and improvement.

Operating Margins



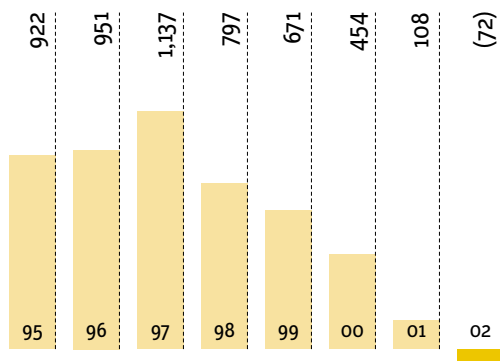
ROIC*



*Based on EVA® methodology as per Stern, Stewart & Co.

Net Debt

(millions of U.S. dollars)



Competitive Advantages

Our *Coca-Cola* bottling operations exemplify the many advantages of our customer-focused strategy. *Coca-Cola* FEMSA capitalized on its superior brand equity and disciplined marketplace execution to post yet another year of record performance. Highlights included our ability to gain share in Argentina's deteriorating economy, to increase sales of brand *Coca-Cola* in Mexico, and to bolster still water volume through our successful launch of our 5-liter presentation of *Ciel*.

Despite adverse economic conditions in northern Mexico, FEMSA Cerveza is making significant progress at home and abroad. We are leveraging the equity of our flagship brands to position each of our major beers as the premium brand in their respective domestic market: *Tecate* in northwestern Mexico, *Sol* in central Mexico, *Superior* in southern Mexico, and *Carta Blanca* in northeastern Mexico. We are differentiating our product portfolio and at the same time, developing new presentations and occasions for consumers to experience our beers. We are achieving profitable international volume growth by focusing our attention on our most lucrative long-term international markets.

Our retail operations represent an increasingly important component of our market penetration, intelligence gathering, and pricing strategies, enabling us to explore new markets more efficiently and profitably. We finished the year with a record 437 new Oxxo stores—opening more than one per day—and today operate the largest chain of convenience stores in Mexico and Latin America. As you will read, our new approach to category management is yielding solid results: when FEMSA Cerveza and Oxxo coordinate their local marketing strategy through our regional beer managers, they boost same-store beer sales and foster increased customer loyalty.

Opportunity

These pages highlight our excellent record of continued growth and profitability, and further evidence the compelling potential of our company. We enter 2003 much stronger and better positioned to take advantage of arising growth opportunities.

We are confident in our strategic vision, and we greatly value the trust you place in our ability to achieve our objectives. On behalf of the more than 41,600 men and women across FEMSA, I thank you for your continued support. We welcome the opportunity to generate attractive returns for you now and into the future.

José Antonio Fernández
Chairman of the Board and
Chief Executive Officer



One-on-one with the CEO

Along with their support, our investors always have relevant questions for us regarding FEMSA's business strategy. Our CEO takes on some of the year's salient topics.

Q. We understand that FEMSA is willing to divest some of its small, non-strategic operations at prices that will produce value for shareholders, but the links among FEMSA's core beverage businesses and strategic retail and packaging units lead some analysts to see FEMSA as a portfolio of related companies, some would even say a conglomerate. Does FEMSA's vertical integration make strategic and economic sense?

A. We are aware that business strategists, economists, and analysts have found that in many cases vertical integration is no longer strategically or economically justifiable. Often, one company's bottom line is made to look better at the expense of another's. We are therefore quite stringent about the criteria we apply in establishing vertical integration. We use "arm's length" agreements that our partners in both beer and soft drinks demand when doing business with other FEMSA subsidiaries. Essentially, then, we have two principles that guide our vertical integration policy:

1. We vertically integrate when we can achieve a strategic objective that differentiates us from our competitors, and that we could not achieve otherwise.
2. We vertically integrate to avoid conditions that approach monopolistic pricing from suppliers, and we maintain the integration until viable, competitive alternatives exist in the marketplace.

I believe that these principles are widely accepted by strategists and economists. This is how we apply them in the case of our strategic businesses:

Principle 1

Our first principle explains the vertical integration of Oxxo. Because Oxxo is part of the FEMSA family, our beer marketers can influence Oxxo's site selection to either penetrate challenging beer markets or consolidate our lead in others.

Important as it is for Oxxo and FEMSA Cerveza, site selection is only half the story. Back office coordination between the beverage category managers (Oxxo) and the beverage marketers (Cerveza and Coca-Cola FEMSA) is fundamental in order to experiment successfully with various promotions such as product bundling, product placement within the store, price mix, and new presentations. Through this interaction, we learn how we can best transfer this understanding of consumers and their purchasing preferences to our mom-and-pop retail customers, in order to boost their sales of our beverages.

Oxxo has earned its place as a powerful growth engine for FEMSA and a respected market leader in the convenience store space, and today enjoys a national presence. Over the past four years it has increased the number of net new stores at a rate of 22% per year, and we believe that this remarkable pace can be sustained for several years to come. Of course, the strategic advantage achieved by coordinating decisions on site selection with FEMSA Cerveza will dissipate as market penetration approaches maturity. At that time, we will re-evaluate whether vertical integration still makes sense on the basis of what it can add to our marketing knowledge and brand management.

Principle 2

The second principle explains our ownership of certain packaging operations. For us, the main packaging materials are aluminum cans and glass bottles. In both cases, the market is characterized by few competitors, little excess capacity, and tight pricing conditions. Thus, like most of our competitors, we have vertically integrated these businesses over time. But unlike our competitors, we maintain all of the market's pressures on our packaging operations, ensuring they are profitable and viable as stand-alone operations.

We get the best of all possible worlds by avoiding monopolistic pricing from suppliers, lowering negotiation costs and maintaining the discipline of market pressure. In addition, having such capabilities in-house provides us with unmatched agility and flexibility in the development of new presentations.

We do not anticipate that these conditions in the glass and can industry will change any time soon. Nonetheless, because our canning and bottling operations are world-class and experience high third-party demand for their products, we could divest them if strategic conditions changed. Right now, our first principle of avoiding monopolistic pricing from suppliers makes it imperative for us to keep these businesses.

In sum, FEMSA's integrated strategy has proven successful across market cycles, with more than a decade of significant growth in consolidated revenues and operating income. Under current conditions, we believe integration is necessary to continue growing profitably, increasing our share of the various markets where we operate, and improving continuously the value proposition that our customers find in our products. As an added benefit, our packaging and retail subsidiaries serve as talent incubators for FEMSA executives, and today many managers trained in those operations occupy leading positions in our core beverage businesses.

In the context of the recently announced acquisition of Panamco by Coca-Cola FEMSA, our business model seems even more relevant and promising as a broad array of new opportunities arise for our beverage platform.

Q. When we look at the beer volume indicators in Mexico, we see that you have been losing ground to your main competitor since you embarked on your transformation process. What does this trend say about your strategy? Will you reverse either the trend or the strategy soon?

A. The transformation you refer to is in fact a revolutionary approach to the beer market that is transforming our company from the bottom up. When you set new foundations to build solid competitive advantages, you must view volume growth ahead of the industry as a consequence of the right business model and excellent execution, not as an end by itself. We were aware when we set upon this course that the process would take time. Having gone through a comparable process a few years ago when we effected a similar transformation at Coca-Cola FEMSA, we have full confidence that the strategy works, that we have the right team in charge, and that we are on the right track. As we adapt the model to our national network and the peculiarities of the beer market, the process is taking a bit longer to implement than anticipated. We do not trivialize our loss of ground; on the contrary, it is a very visible reminder that we have an enormous responsibility to our shareholders to complete the transformation and to deliver the expected results. We work to that end every day.

Two engines of competitive effectiveness drive our strategy:

The first engine consists of systematic consumer, retail customer, and brand intelligence. As we develop that intelligence and track it with cutting edge information technology, we will begin to position our brands strategically in each region for increased revenue and profit generation. Whenever we put together our customer and retailer knowledge, brand-building creativity, and operational execution skills, we score wins. And we are tallying more and more as we reach a competitive level of sophisticated decision-making.

Let me highlight some of our 2002 successes:

- Mexico's central region has been challenging for us. However, this year our customer insights led us to develop a strategic plan for positioning *Sol* in that key market. We used new packaging technology that enabled us to use occasional thematic labels for special events such as the World Cup, and we carefully priced our other brands to emphasize *Sol*'s core brand status. During the year, *Sol* increased its sales volume significantly as a result of this initiative.
- In the Northwest of Mexico, where economic conditions led to an overall market contraction, we used our knowledge of customers in the states of Sonora, Baja California and Sinaloa to introduce a 16-ounce can presentation of *Tecate*. It was widely accepted, thus maintaining our competitive position, and increasing our profits.
- *Indio* shows how much we are working with the new empowered consumer. Young urban beer drinkers find an appealing mystique in this brand; they are fueling its growth by word of mouth. We see *Indio* drinkers as the consumers of the future. They take an active role in defining the meaning of the brand, and we help them find what they are looking for in all of our brands. *Indio* was the fastest-growing brand in our portfolio during 2002.

These are local victories, and there are many more. They show that we can manage brands that are known internationally and compete by means of local, customized positioning. They show that our strategy works.

The second engine of our strategy is increased operational excellence by employing cutting edge information systems and process enhancement to reach the highest competitive levels of coordination among our operations. These tools enable us to make intelligent decisions at the micro level and to design cost-saving tactics. Again, let me mention a few of these successes:

- A reduction of almost 500 truck routes and crews during the last three years, due to the rollout of the pre-sale system to approximately 75% of our domestic beer volume.
- A reduction of working capital by lowering average days receivable by 8% since the year 2000.
- An increase of 16% in manufacturing productivity during 2002.
- Significant progress in the reorganization of our network of regional distributorships and warehouses, both directly owned and third party.

The basic measures of our success up to now are our profits and profit margins. In 2002, we increased FEMSA Cerveza's operating profit margin by 80 basis points despite the price pressure coming from the sluggish economic conditions in Northern Mexico, as well as our continued investment in information technology and process improvements.

We expect to stabilize and then reverse the competitive trend in the short term. However, our main focus is placed on a prudent, sustainable and long-term approach that will allow us to thrive for a long time to come. Our strategy is on track to do just that.

Q. Last year you communicated to the market that in the short term you would not pursue a corporate restructuring of FEMSA, involving the separation of the beer and soft drink operations. You mentioned the possibility that a combined beverage model might eventually become the standard in Latin America. If there is indeed potential in a business model that incorporates the distribution of beer and soft drinks, why has FEMSA been slow to capitalize on such an opportunity?

A. As you correctly point out, there is growing evidence that a model combining beer and soft drinks may be the appropriate formula for the future of the beverage business in Latin America. Certainly, the practice has become the norm in some markets such as Brazil, and it is also gaining traction in places like Argentina and some Central American countries. However, it is important to note that integration can take place at several different levels of the value chain: the back office, procurement, warehousing, selling, and merchandising, before actually reaching the point where both types of product are delivered to the point of sale on the same truck.

Integration is a real possibility in some of the markets where we operate today and expect to operate in the future, after completion of the acquisition of Panamco. For example, in Argentina we are already competing against a system that combines beer and soft drinks in their portfolio, making it important for us to come up with a combined strategy of our own to level the playing field. And there are other markets where Panamco has significant soft drink operations, where it might make sense to pursue some level of integration. However, it is still very early to tell what shape or form that integration might take.

In the case of Mexico, the market has structural characteristics that increase the degree of complexity. Furthermore, we are in the midst of a major transformation at FEMSA Cerveza, and the successful completion of this effort carries the highest priority.

The Coca-Cola Company plays a central role in any analysis and eventual strategy to integrate beer with soft drinks. Therefore, we are pleased to have reached an understanding with them to analyze the merits of such a strategy on a market-by-market basis.

We are aware that this operational integration might open avenues of growth and new revenue and profit streams. However, and as always, such an undertaking requires the most thorough analysis and utmost care. We will only move forward when we are convinced that the new initiatives will create sustainable value for our shareholders.

Accelerating our pursuit of profitable growth: Coca-Cola FEMSA reaches an agreement to acquire Panamco

On December 23rd, 2002, we announced a significant strategic step in the evolution of FEMSA: Coca-Cola FEMSA reached an agreement to acquire Panamerican Beverages, Inc. (Panamco), the largest Coke bottler in Latin America. The acquisition is expected to close during the second quarter of 2003 subject to the satisfaction or waiver of certain conditions. Once the transaction closes, Coca-Cola FEMSA will be the second largest Coke bottler in the world and the largest one in Latin America, producing roughly one out of every ten Coke products sold globally and one of every three sold in Latin America. It will hold leadership positions in the key Mexican market as well as in many other national and regional markets in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina, and will serve the region's major metropolitan areas such as Mexico City, São Paulo, Buenos Aires, Bogota and Caracas.

For years, Coca-Cola FEMSA had been fine-tuning its business model, developing core skills and documenting the processes that have allowed it to increase its profitability and returns to the highest levels of any soft drink bottler, anywhere, in order to make its best practices replicable across markets. At the same time, a pool of capable managers and operators was developed across FEMSA, in expectation of the franchise growth that we all pursued and knew would eventually come. Finally, a conservative approach to balance sheet management ensured that the company had the financial strength and the access to the capital markets that would allow it to obtain the necessary resources to fund a transaction of this magnitude.

This transaction is very significant for FEMSA. Evidently, the fact that Coca-Cola FEMSA is expected to have such meaningful scale and scope should result in the creation of value for its shareholders, as synergies are realized and best practices are adapted and replicated in the new franchises. However, and perhaps less obviously, this transaction is also expected to create a truly continental platform for FEMSA, opening potential growth opportunities by leveraging our brewing, branding and marketing expertise across a large territory where the combined beverage model of soft drinks and beer is increasingly becoming the proposition of choice.

We do not take this challenge lightly, but we believe the opportunities far outweigh the risks. The job at hand is significant, and it will require all of our focus, energy and commitment. However, we are fully confident that we will succeed in our efforts by applying the work ethic and values that have made the FEMSA culture such a powerful and winning formula.

Latin America's Soft Drink Powerhouse



10% of the world

1 out of every 10 Coca-Cola products sold worldwide will be bottled by Coca-Cola FEMSA. In Latin America, this ratio will be 1 out of every 3.

29 million liters

will be sold each day by Coca-Cola FEMSA. In a year, this is equivalent to 1.8 billion unit cases.

US \$4.0 billion

in 2002 pro-forma revenues

US \$931 million

in 2002 pro-forma EBITDA

Coca-Cola FEMSA

Coca-Cola FEMSA will employ approximately 40,000 talented people, operate 52 bottling plants and 853 distribution centers, manage 7,647 routes, sell beverages in 1,430,000 points of sale, and quench the thirst of 166 million drinkers.

Welcome to FEMSA >

For more than a century, we at FEMSA have developed a unique approach to business that has allowed us to generate sustainable growth and profitability for our shareholders, while continuously improving the work environment for our team. There is more to this powerful combination—the FEMSA Culture—than meets the eye...

Did

you know?



US \$5 billion

FEMSA is Latin America's largest beverage company by revenues.



pioneer in IT systems

According to *Latin Trade Magazine*, FEMSA Cerveza is one of the top ten investors in technology among Latin American corporations.



beer productivity

Our volume per manufacturing employee increased 16% in 2002.



you know?

2nd largest

Our subsidiary Coca-Cola FEMSA will be the second largest Coke bottler in the world once the Panamco acquisition has closed.



best places to work

Rated one of Mexico's "Best Places to Work" by leading Mexican business magazine *Expansion*.

+1,000,000 shoppers/day

This is equivalent to every Mexican man, woman and child visiting an OXXO convenience store about 4 times per year.



top performance

Since 1995, Coca-Cola FEMSA doubled its sales volume in its key Valley of Mexico market, using the same number of trucks and half the number of plants.

#1 canned import

One out of every three cans of imported beer sold in the United States is particularly refreshing. It's a *Tecate*.

15%  

proven results

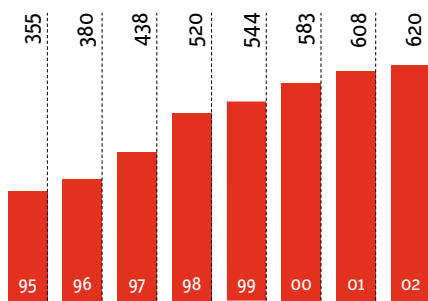
FEMSA's operating income in US dollars has grown 15% compounded over the last 10 years, faster than every beverage company in the S&P 500 Index.

Brand equity plus knowledge, excellent execution, and efficiency equals one of the world's most profitable *Coca-Cola* bottlers

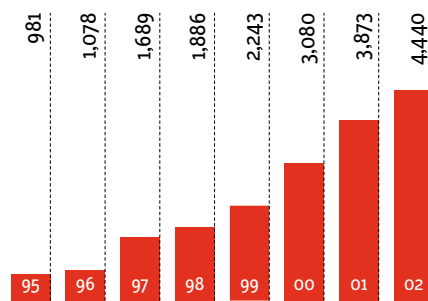
The marketing philosophy of our *Coca-Cola* bottling business relies on a diverse portfolio of quality brands and presentations to serve our customers and end-consumers' particular tastes and preferences. Our flexible mix of products and packaging—from light-weight plastic to returnable glass presentations of our core *Coca-Cola* brands—offers us a number of avenues for profitable and sustainable market share growth. We can develop sharply tailored marketing campaigns. We can confront competitive threats with more cost-effective, channel-specific responses. And, we can contrast and empower our core brands to minimize the impact of adverse economic conditions.

Our pleasing portfolio, coupled with our efficient execution, enabled us to achieve yet another year of record sales—620 million cases—despite soft and deteriorating economic conditions in Mexico and Argentina. In fact, during 2002 we were able to almost double the sales volume of six years ago, while using the same number of trucks and a smaller number of the bottling plants in the Valley of Mexico territory.

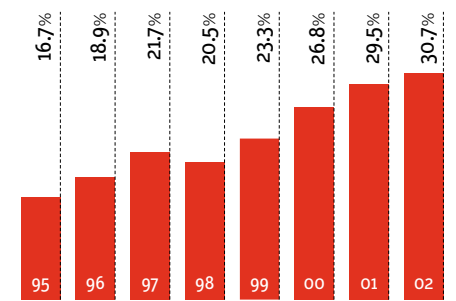
In 2002 we offered consumers a refreshing array of new products—*Disney Adventures*, flavored milk-based beverages, *Beat*, an edgy carbonated soft drink, and *Nestea* iced tea—and presentations, including our 2.50-liter returnable PET bottle of *Coca-Cola* in Mexico, our 1.25-liter returnable *Coca-Cola* and *Sprite* glass bottles in Argentina, and our 5-liter bottle of *Ciel* water in the Valley of Mexico. By capitalizing on our extensive commercial network, we rolled out our new presentation of *Ciel* to 42,000 points of sale in less than two weeks.



Coca-Cola FEMSA: Total Volume
(millions of unit cases)



Coca-Cola FEMSA: Operating Income
(millions of 2002 pesos)



EBITDA Margin

New beer presentations, integrated marketing campaigns, and pre-sale systems drive rising profitability

Offering Consumers Better Choices

We are always on the lookout to be a step ahead of the evolving tastes of our discriminating consumers, so we constantly improve our range of products and packages to create new experiences and to meet new desires. In 1992 we introduced *Tecate Light*, the first light beer in Mexico and currently the most popular brand in its category. We were also the first Mexican brewer to introduce twist-off bottle caps, smaller wide-mouth can-ends, and a variety of new packaging sizes for our brands.

Now, our new 16-ounce presentation is maximizing our participation of the mix in Mexico's high per capita beer markets. Building on our successful pilots in 2001, we launched our 16-ounce can of *Tecate* in 35 northern markets last year. When offered the choice between our new 16-ounce and our traditional 12-ounce cans, many beer patrons are trading up to our new, more satisfying presentation.

Our more refreshing 16-ounce can is especially appreciated in Mexicali, one of Mexico's highest per capita beer markets. Many of our consumers in this hot-weather market, enjoy *Tecate* to quench their thirst. Nationwide, our 16-ounce presentation now accounts for a significant portion of our total can segment.

We take pleasure in the details; our detailed understanding of our consumers' preferences pays off. As we monitor the markets' receptivity to our differentiated product offerings, we will continue to improve the presentation of our brands to enhance consumer loyalty and enjoyment. Across our markets, we continue to manage our revenues and to rationalize our costs through a strategic mix of packaging, merchandising, and pricing.



**DISFRUTA
LA VIDA
TOMANDO SOL.**

The Sun Shines Bright for *So!*

In 2001, we launched an ambitious initiative to re-position *So!* with the key young adult consumer segment, as the beer that is “full of life”. Like the sun itself, the brand exudes vitality, fun, youth, and it fosters the gathering of friends.

Our integrated campaign involves a comprehensive multi-media strategy including television and radio, as well as urban visibility through the use of advertising on city landmarks, storefronts and point-of-sale displays. The campaign is enhanced by linking the brand to soccer, our national sport.

Two years into the campaign, the results are remarkable across all measurable brand health indicators: brand awareness is at an all-time high, brand loyalty is up in the target segment, and the all-important purchase intent indicator has grown by 7 percentage points relative to the previous year in the brand’s core markets.

Best of all, the health of our sunny brand is translating into significant volume growth: *So!* presents a sustained positive volume trend since March of 2002, delivering annualized growth in the high single digits. In fact, the brand’s incremental volume surpassed that of any other brand in the Mexican beer industry during 2002.

Taking in the sun. Tomando *So!* In Mexico, they are one and the same.

Our 2002 flagship campaign propelled *So!* into youthful radiance: this refreshing beer is all about fun and friends and they increasingly made it a part of their experience. *So!* was one of the fastest growing brands in Mexico in 2002. There is no substitute for the Sun!



A Virtuous Circle of Efficiency and Profitability

Our continued investment in proprietary pre-sale systems, state-of-the-art information-gathering capabilities and market research are enabling us to increase our levels of client service, to improve our profitability, and to further invest in our corporate transformation. Thanks to these sophisticated systems and processes—which are starting to allow us the collection of customer and consumer information directly from the marketplace—we were able to more efficiently and effectively launch our 16-ounce can of *Tecate* in northern Mexico and successfully position *Superior* as the beer of Carnival in southern Mexico. It has also helped us support the growth of *Sol* and *Indio*, the two fastest growing brands in the Mexican market during 2002.

At the same time, we are increasing our operating productivity, efficiency, discipline, and profitability. We now sell approximately 75% of our beer volume through our pre-sale systems. Since we began implementing this company-wide transformation in 2001, our sales force has increased its effectiveness to 90% compared to 65% in previous years; our distribution is much more streamlined, with less than 500 truck routes; our unsold product in the trucks is down by 80%; our days receivable is down by 8%, and our operating leverage (percentage increase in operating income divided by percentage increase in revenue) is rising.

Finally, our increasing profitability is facilitating our consumer-driven transformation. Through our investment in advanced information technology, we gain customer and consumer data that allows us to design tailored strategies to meet our consumers, channels and markets' evolving needs.

International strategy profitably targets specific markets' tastes

Tecate: Big Up North, Big Down South

Guatemala is the number one beer market in Central America, and *Tecate* is now far and away the country's largest imported beer. In addition to the brisk level of trade between Mexico and Guatemala, a key element of our success is the strength of our partners; they are strong local business people with established distribution channels and local market knowledge.

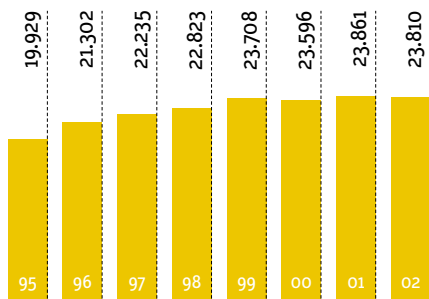
To boost sales further, we're now offering our consumers more alternatives to choose from. In addition to cans, we now sell *Tecate* in more affordable returnable glass bottles—marking our first use of returnable bottles in an international market. Through our greater understanding and our unrelenting attention to detail, we are earning consumers' growing appreciation for the *Tecate* beer-drinking experience both north and south of the Mexican border.

Top of Mind

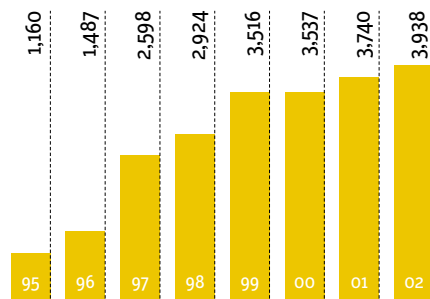
Today *Dos Equis*' growth rate in San Diego, California, is higher than in any of our other export markets. Indeed, our brand's growth is accelerating beyond San Diego to all of Southern California. *Dos Equis* is now among the top four imported beers in San Diego and among the top six in southern California.

However, this was not always the case. Before we launched our first television campaign in 10 years, we enjoyed favorable, but not top-of-mind brand equity. Our two-year integral marketing campaign used the full gamut of media advertising to build support for the *Dos Equis* experience among adults age 25 through 30: young, dynamic, upscale consumers who enjoy the authentic feel and taste of *Dos Equis*.

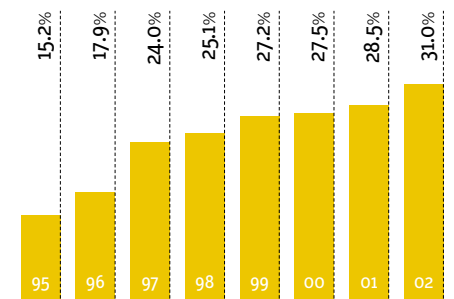
Now that our brand is top of mind, we look forward to the day when *Dos Equis* is number one in the hearts of Southern Californians, choosing *Dos Equis* over any other imported beer. In the meantime, the cost to maintain our share of the market is dropping.



FEMSA Cerveza: Total Volume
(millions of hectoliters)



FEMSA Cerveza: Operating Income
(before management fee, millions of 2002 pesos)



EBITDA Margin
(before management fee)

With more than 2,200 stores, Oxxo provides unparalleled growth, convenience, and strategic support

Strategic Support

Oxxo's impressive growth is allowing us to explore, penetrate, and open new markets. Both our Oxxo chain of convenience stores and our Cerveza beer operations primarily cater to men between the ages of 18 and 45. They perform well separately, but as the following stories illustrate, when they work together, our results are remarkably refreshing.

The *Bajío* in Central Mexico has been historically one of Oxxo's and Cerveza's most difficult markets to crack. However, that situation is changing as Oxxo leverages Cerveza's broad brand portfolio to turn a challenging central region into one of our fastest-growing national markets.

Oxxo and Cerveza worked together to experiment with a wide variety of promotions to determine consumers' tastes. We found that local beer drinkers wanted a lower-priced brand in a classic non-returnable glass presentation. So, we offered them *Carta Blanca Quitapon* and *Tecate Twist* at a lower price point in classic non-returnable glass bottles. Consumers responded not only by buying substantially more of these brands, but also by purchasing significantly more *So!*—their favorite, and our primary, higher-value regional brand. Again, this shows that it's the beer-drinking experience that matters; an experience at one price led to an appreciation of a different experience at another price.

The competitive landscape along the northern Mexican border is quite different; there our main challenge is driving more customer traffic into our Oxxo stores. To tackle this challenge, we're implementing an integrated marketing strategy—advertising at the point of sale, special events, and promotions. We want to ensure that these events and promotions cater to distinctive local tastes and build on the complementary strengths of Oxxo and Cerveza.

One particularly successful promotion leveraged consumers' love of baseball and Cerveza's sponsorship of the Reynosa Broncos ball club. As advertised on local radio, consumers could come see their favorite Broncos player at Oxxo, and, at the same time, earn value pesos (coupons) with the purchase of certain products; when they collected six coupons, they could enjoy a day at the ball park for free, watching their Broncos play at the *Carta Blanca* stadium.

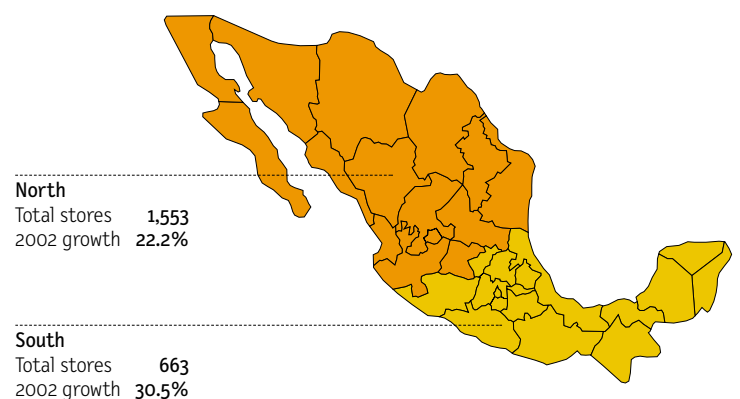


Unmatched Performance

In addition to the strategic advantages and support that Oxxo affords our beverage operations, the business’ stand-alone performance is impressive as well. Last year, we built on our market-leading position—Oxxo is the largest and only nationwide convenience store chain in Mexico by adding a record 437 new stores. Importantly, we achieved this growth while increasing our profitability. By leveraging our network of 40 regional offices, we were able to expand the chain without increasing our administrative overhead. We expect to continue capitalizing on our nationwide administrative network for some time into the future.

Our proprietary development model further enables us to identify store locations and to design store formats and product categories that meet specific local needs. We use specialized demographic data, as well as our experience in similar locations, to fine tune a store’s format and product offerings to a particular target market. As a result, consumers can select a shopping experience that fits their mood, monetary needs, and mode of transportation—from traditional gas station stores to a variety of customized stores located near bus stations (where there is no need for parking), in convention centers, and in upscale residential neighborhoods as well as in lower-income rural communities.

Nationwide Double Digit Growth



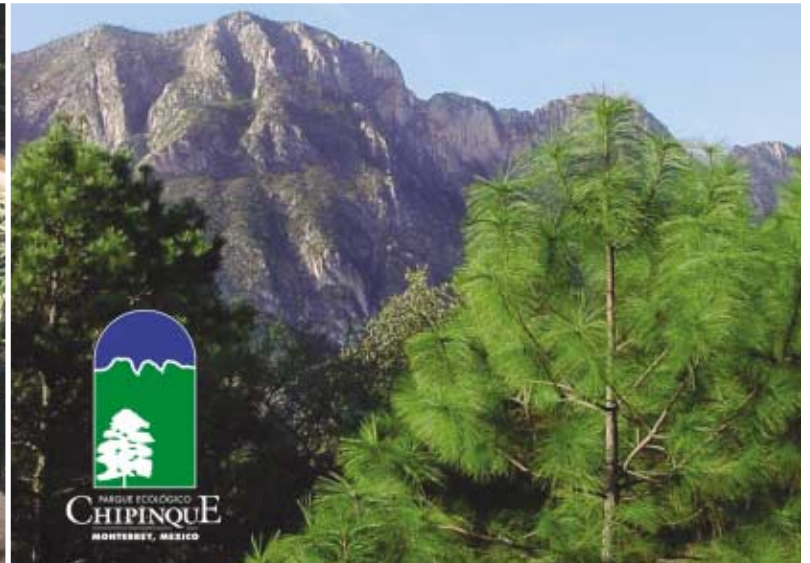
We remain true to our principles and to society

Nurturing Tomorrow's Leaders Today

The cornerstone of our commitment to learning is our constant and unwavering support of the Monterrey TEC. Founded in 1943 by a group of corporate statesmen led by Don Eugenio Garza Sada, FEMSA's Chairman and CEO at the time, Monterrey TEC has grown into one of Latin America's largest and most prestigious universities with 32 campuses across Mexico and a student body exceeding 30,000 full time students. We continue to be among TEC's principal sponsors, and this ongoing commitment is consistent with our stated mission of creating value for society through enterprise and the development of institutions.

Protecting Our Environment

We aim to operate as a model corporate citizen, and to protect the environment on which we all depend. Since 1986, the Oxxo Ecology Award has engaged middle-school children, their parents and teachers in myriad community work projects—including recycling and reforestation—that foster environmental awareness and civic values.



Caring Locally: Every Cent Counts

We continuously look for ways to support the communities in which we do business. For example, our new PRO (Programa de Redondeo Oxxo) contribution program is designed to benefit, strengthen and support local charitable organizations. Every two months, our stores select a different local philanthropic organization, and our customers are offered the opportunity to round their ticket up to the next peso, contributing the difference to the chosen charity. Implemented at 246 stores in 2002, we expect to aggressively roll out PRO this year.

Promoting Responsible Beer-Drinking Experiences

As a leading brewer in one of the world's most important beer markets, fostering occasions for consumers to enjoy our beer responsibly is fundamental to our business. Hence, we were one of the first alcohol beverage producers in Mexico to create a large-scale program to promote responsible consumption. Now in its tenth year, the designated driver program promotes responsible drinking and driving among hundreds of thousands of young adults across 125 universities throughout Mexico.

Supporting Latin American Arts

We sponsor the FEMSA Itinerant Collection of Mexican and Latin American masterpieces to promote greater appreciation of the arts. Selected pieces from more than 1,000 works of art are regularly exhibited throughout Mexico and internationally. We further strive to stimulate local artists' creativity through Monterrey's FEMSA Biennial Art Contest. In 2002 the contest inspired almost 1,500 new works by more than 680 artists.



The Designated Driver Program is a landmark initiative that fosters responsible enjoyment of our beers in consumption centers.

Board of Directors

Over the years, FEMSA has pioneered the Mexican corporate arena in an effort to develop the highest standards in Corporate Governance. We have tried to lead our peers in our adherence to international standards of governance and disclosure practices, as well as ensuring the independence and transparency of all Board functions. We comply with all provisions of the Best Corporate Practices Code sponsored by the Mexican Entrepreneurial Counsel, and we are currently performing a thorough analysis of the new requirements brought about by the Sarbanes-Oxley Act. It is our foremost intent to correspond the trust invested in us by our shareholders with an

honest and transparent board practice, firmly rooted in our corporate values. Our Board of Directors is conformed by three support committees, which help provide depth of insight in boardroom decisions. These are:

The Audit Committee, primarily responsible for recommending the procedures for the preparation of financial information, as well as overseeing the objectivity and independence of the external auditors. Our Audit Committee underwent a major reconfiguration in light of the more stringent environment that has prevailed in 2002, and appointed Alexis Rovzar, Executive Partner of White & Case, S.C. as its President and José González Ornelas, head of FEMSA's internal audit department, as its secretary.



Eugenio Garza Lagüera ¹

Elected: 1960
Honorary Life Chairman of the Board
FEMSA
Alternate: Eva Garza de Fernández

José Calderón ^{1, b}

Elected: 1955
Chairman and Chief Executive Officer
Servicios Administrativos
de Monterrey, S.A. de C.V.
Real Estate
Alternate: Francisco Calderón

Alberto Bañeres ^{1, b}

Elected: 1995
Chairman of the Board
and Executive President
Grupo Bal, Mining and Metallurgic Industry;
Insurance Company; Department Stores.
Alternate: Arturo Fernández

Consuelo Garza de Garza ¹

Elected: 1995
Founder and Former President
ANSPAC
Not for Profit Organization
Alternate: Alfonso Garza

Helmut Paul ^{2, c}

Elected: 1988
Consultant
International Finance Corporation (IFC)
Financial Institution
Alternate: Sergio Deschamps

José Antonio Fernández ¹

Elected: 1984
Chairman of the Board
and Chief Executive Officer
FEMSA
Alternate: Federico Reyes

Max Michel ^{1, a}

Elected: 1985
Chairman of the Board
El Puerto de Liverpool, S.A. de C.V.
Department Stores
Alternate: Max Michel Jr.

Eduardo A. Elizondo ^{3, b}

Elected: 1995
Member of the Board
Grupo Financiero BBVA Bancomer, S.A. de C.V.
Financial Institution
Alternate: Eduardo Padilla

Lorenzo H. Zambrano ^{2, a}

Elected: 1995
Chairman of the Board
and Chief Executive Officer
Cementos Mexicanos, S.A. de C.V. (CEMEX)
Cement
Alternate: Óthón Páez

The **Evaluation and Compensation Committee**, or Human Resources Committee, which oversees the recommendations and procedures related to selection, compensation, promotion and evaluation of the CEO and senior executives. Roberto Servitje, Chairman of the Board of Grupo Industrial Bimbo was appointed as its President and Ricardo González Sada, FEMSA's current Vice President of Human Resources, as its secretary.

The **Finance and Planning Committee**, responsible for evaluating the investment and financing policies of the Company, as well as overseeing the adherence to the annual budget. This Committee recommends the general guidelines for the strategic planning of the corporation, identifying risk factors and evaluating management policies. The work of the Finance

and Planning Committee has been instrumental in designing the current structure of our healthy balance sheet as well as pursuing the consolidation efforts engaged in 2002. Juan Carlos Braniff, Vice President of Grupo Financiero BBVA Bancomer, S.A. de C.V., was appointed as its President and Federico Reyes, FEMSA's Chief Financial Officer, as its secretary.

Examiner
José Manuel Canal

Alternate Examiner
Ernesto González

Secretary
Alfredo Livas

Alternate Secretary
Carlos E. Aldrete

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

1 Shareholder
2 Independent
3 Related

Note
Elected year corresponds to the earliest appointment to the Board of Directors of either FEMSA, Emprex or FEMSA's predecessor Valores Industriales, S.A.



Carlos Salguero ^{2, a}
Elected: 1995
Former Executive Vice President
Philip Morris International
Tobacco & Beverages
Alternate: Fernando Elizondo

Roberto Servitje ^{3, a}
Elected: 1995
Chairman of the Board
Grupo Industrial Bimbo, S.A. de C.V.
Food
Alternate: Paulina Garza de Marroquín

Luis Téllez ^{2, c}
Elected: 2001
Vice Chairman
Grupo Desc S.A. de C.V.
Industry
Alternate: Arturo Estrada

José Manuel Canal ^{2, b}
Elected: 1988
Independent Consultant
Accounting Firm
Alternate: Ernesto González

Alexis E. Rovzar ^{2, b}
Elected: 1989
Executive Partner
White & Case S.C.
Legal Firm
Alternate: Javier L. Barragán

Robert E. Denham ^{2, c}
Elected: 2001
Executive Partner
Munger, Tolles & Olson LLP
Law Firm
Alternate: Lorenzo Garza (1922–2002)

Alfredo Livas ^{3, c}
Elected: 1995
President
Praxis Financiera, S.C.
Financial Consulting Firm
Alternate: Carlos E. Aldrete

Juan Carlos Braniff ^{1, c}
Elected: 1987
Vice President
Grupo Financiero BBVA Bancomer S.A. de C.V.
Financial Institution
Alternate: Carlos Salazar

Barbara Garza de Braniff ¹
Elected: 2002
President
Fundación Cultural Bancomer, A.C.
Not for profit organization
Alternate: Mariana Garza de Treviño

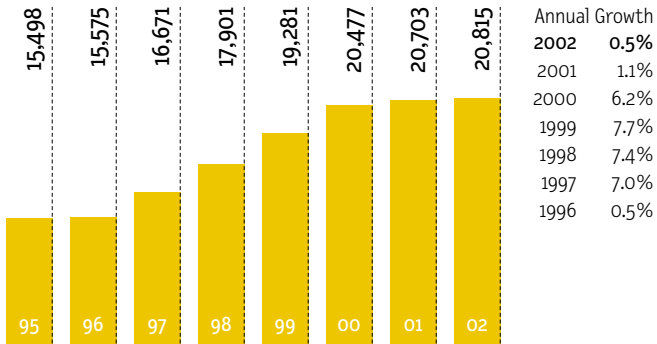
Ricardo Guajardo ^{3, c}
Elected: 1988
Chairman and Chief Executive Officer
Grupo Financiero BBVA Bancomer S.A. de C.V.
Financial Institution
Alternate: Alfredo Martínez-Urdal

Business Unit Highlights

FEMSA Cerveza

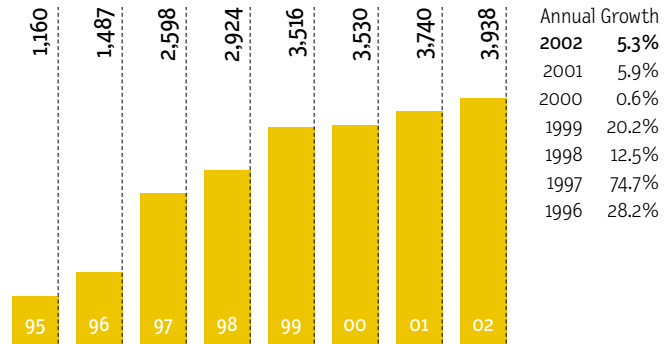
(Financial figures in millions of 2002 pesos)

Total Revenues



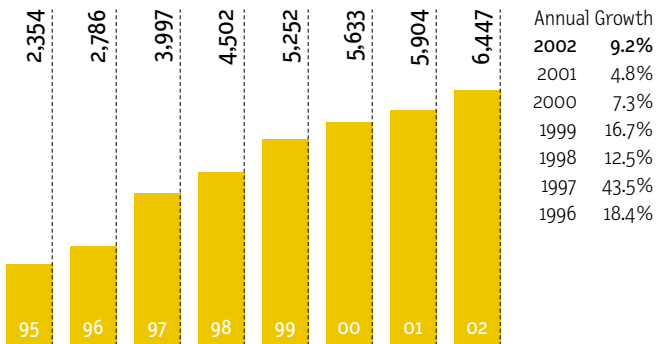
Operating Income

(before management fee)

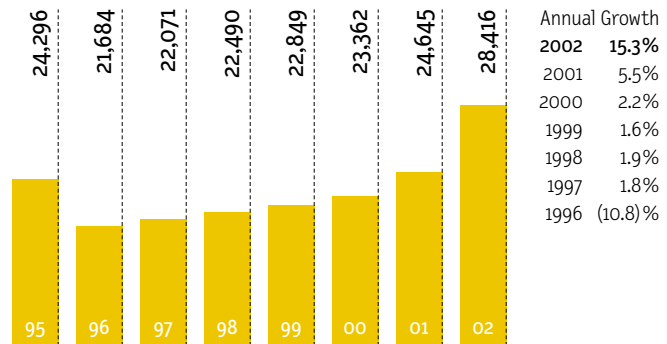


EBITDA

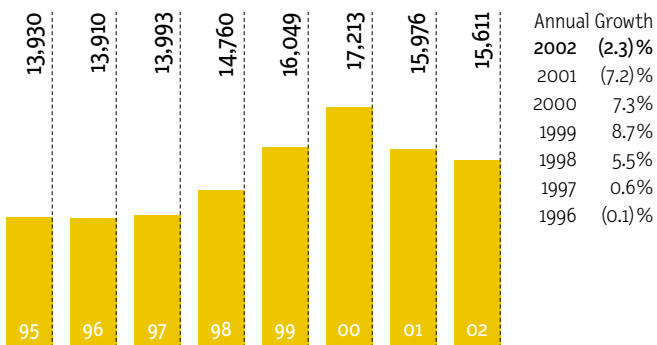
(before management fee)



Total Assets



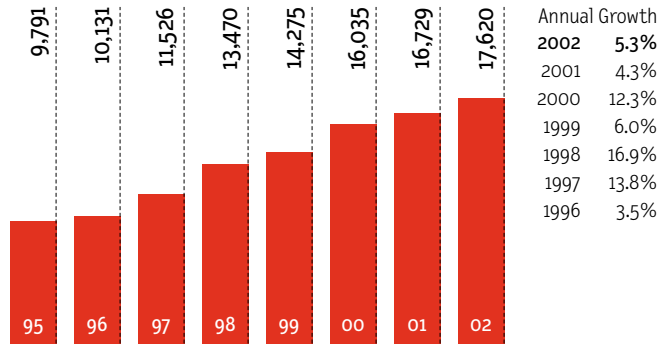
Personnel



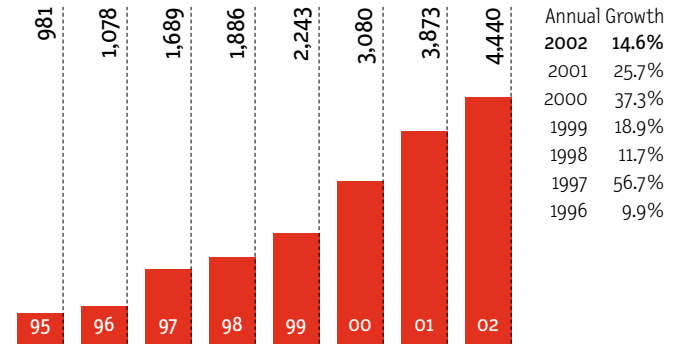
| | |
|----------------------------------|------|
| Number of Plants | 6 |
| Capacity (M. Hectoliters) | |
| Installed | 32.2 |
| Percentage Utilized | 72.2 |
| Percentage Product Mix | |
| Returnable | 69.6 |
| Non-Returnable | 7.9 |
| Can | 22.5 |



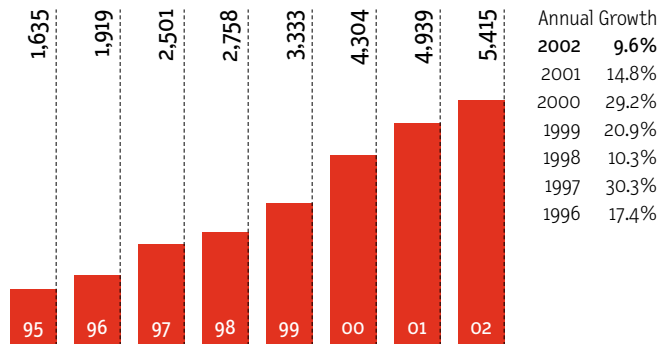
Total Revenues



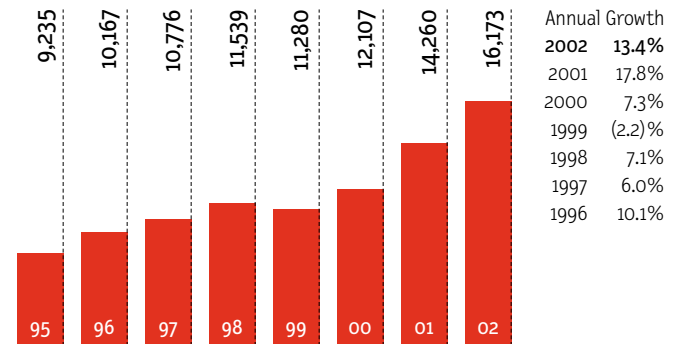
Operating Income



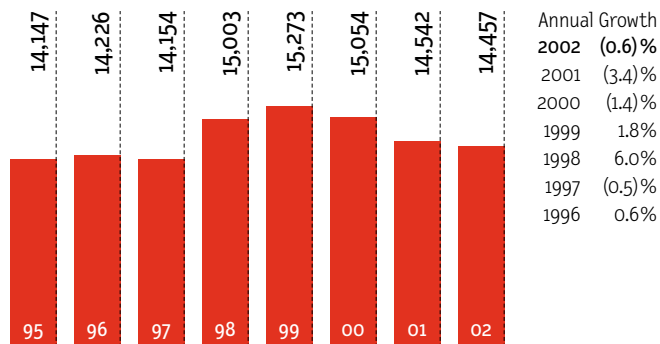
EBITDA



Total Assets



Personnel



| | Valley of Mexico | Southeast | Buenos Aires |
|---------------------------------|------------------|-----------|--------------|
| Number of Plants | 4 | 4 | 1 |
| Distribution Centers | 15 | 38 | 3 |
| Capacity (M. Unit Cases) | | | |
| Installed | 600 | 142 | 207 |
| Percentage Utilized | 63% | 73% | 56% |
| Percentage Product Mix | | | |
| Returnable | 33.7 | 43.7 | 12.4 |
| Non-Returnable | 60.8 | 51.2 | 85.4 |
| Can | 5.5 | 5.1 | 2.2 |

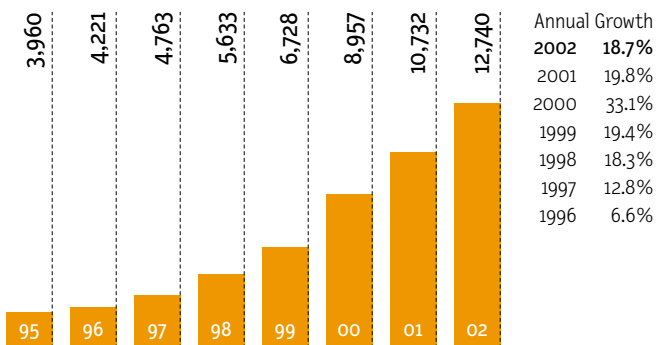


Business Unit Highlights

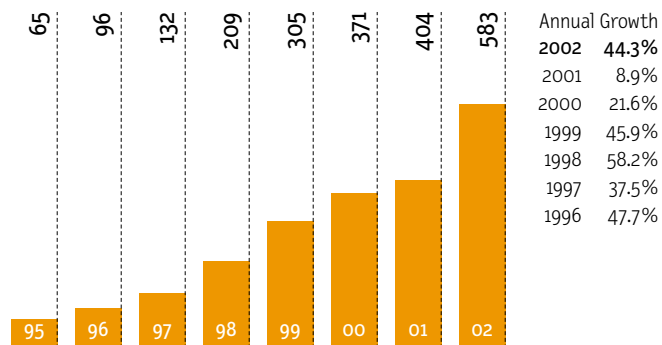
FEMSA Comercio

(Financial figures in millions of 2002 pesos)

Total Revenues

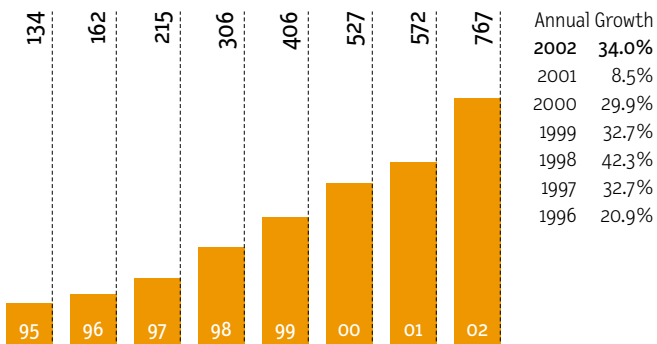


Operating Income (before management fee)

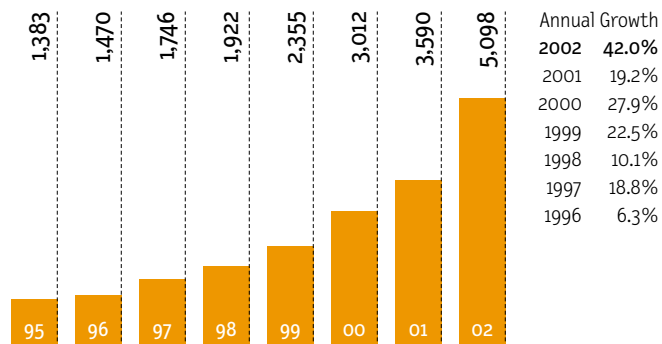


EBITDA

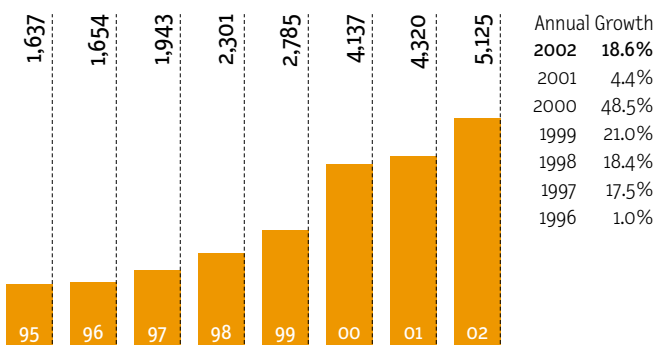
(before management fee)



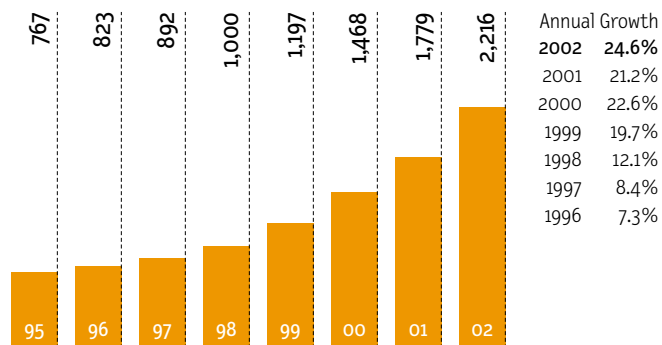
Total Assets



Personnel



Number of Oxxo Stores



Executive Officers

Eugenio Garza Lagüera
Honorary Life Chairman
55 years of service

José Antonio Fernández
Chairman of the Board and
Chief Executive Officer
FEMSA
15 years of service

Alfredo Martínez-Urdal
Chief Executive Officer
FEMSA Cerveza
9 years of service

Carlos Salazar
Chief Executive Officer
Coca-Cola FEMSA
29 years of service

Eduardo Padilla
Chief Executive Officer
Strategic Business
6 years of service

Federico Reyes
Chief Financial Officer
FEMSA
4 years of service

Ricardo González
Senior Vice President
Human Resources and Planning
FEMSA
3 years of service

Contact Information

Corporate Headquarters Information

FEMSA
General Anaya 601 Poniente, Colonia Bella Vista
Monterrey, Nuevo Leon, Mexico CP 64410
Phone: (52) 81-8328-6000

International Legal Counsel of the Company

Carlos E. Aldrete Ancira
General Anaya 601 Poniente, Colonia Bella Vista
Monterrey, Nuevo Leon, Mexico CP 64410
Phone: (52) 81-8328-6180

Independent Accountants

Deloitte & Touche
Avenida San Pedro No. 100 Norte
Col. del Valle
San Pedro Garza García, Nuevo Leon
Mexico, CP 66220

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

Citibank, NA
111 Wall Street
New York, NY 10043

Investor Relations

Juan Fonseca
Alan Alanís
Arturo Ballester
Phone: (52) 81-8328-6168
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





Coca-Cola



FEMSAUBD



Fomento Económico Mexicano, S.A. de C.V.
Apartado Postal 2001, 64410 Monterrey, N.L., México
www.femsa.com investor@femsa.com.mx