FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2004

Mexican Economic Development, Inc.

(Translation of Registrant's Name Into English)

Mexico
(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte.
Colonia Bella Vista
Monterrey, Nuevo León 64410
Mexico
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F ☒ Form 40-F ☐

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1))

Yes ☐ No ☒

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7))

Yes ☐ No ☒

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ☐ No ☒

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .)

This report on Form 6-K is incorporated by reference into the prospectus contained in the Registration Statement on Form F-3 (Registration No. 333-117795) of Fomento Económico Mexicano, S.A. de C.V., or FEMSA, filed with the Securities and Exchange Commission, or SEC, on July 30, 2004, and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

EXHIBITS

1. Unaudited Pro Forma Consolidated Financial Information, including unaudited pro forma consolidated income statement for the six months ended June 30, 2004 and unaudited pro forma consolidated balance sheet as of June 30, 2004.
2. Operating and Financial Review and Prospects for Six Months Ended June 30, 2004.
3. Unaudited Consolidated Financial Statements, including the notes related thereto for the six months ended June 30, 2004 and 2003 and at June 30, 2004 and December 31, 2003.

PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated balance sheets as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years ended December 31, 2003, 2002 and 2001 are included in our annual report on Form 20-F for the year ended December 31, 2003, filed with the SEC on April 8, 2004. Our unaudited consolidated balance sheet as of June 30, 2004 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the six months ended June 30, 2004 and 2003 are included in Exhibit 3 to this report.

We publish our financial statements in Mexican pesos and prepare our financial statements in accordance with generally accepted accounting principles in Mexico, or Mexican GAAP. Mexican GAAP differs in certain significant respects from generally accepted accounting principles in the United States, or U.S. GAAP. Notes 25 and 26 to our audited consolidated financial statements as of and for the year ended December 31, 2003 and Notes 27 and 28 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2004 provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to our company, and a reconciliation to U.S. GAAP of majority net income and majority stockholders' equity.

Unless otherwise specified, we have presented financial data for all full-year periods included in our consolidated financial statements in constant Mexican pesos at December 31, 2003. We have presented financial data as of June 30, 2004 and for the six months ended June 30, 2004 and June 30, 2003 in constant Mexican pesos at June 30, 2004. We believe that the effect of not restating the financial data for the full-year periods included in our consolidated financial statements in constant Mexican pesos at June 30, 2004 is not material, as the Mexican Consumer Price Index was 1.63% for the six months ended June 30, 2004.

This report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, these U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 11.5123 to US$ 1.00, the exchange rate quoted by dealers to FEMSA for the settlement of obligations in foreign currencies on June 30, 2004. On June 30, 2004, the noon buying rate for Mexican pesos as published by the Federal Reserve Bank of New York was Ps. 11.538 to US$ 1.00.

Our subsidiary Coca-Cola FEMSA, S.A. de C.V., or Coca-Cola FEMSA, acquired Panamerican Beverages, Inc., or Panamco, on May 6, 2003. Unless otherwise indicated, our consolidated financial statements include Panamco only from May 2003. As a result, our consolidated financial statements as of and for the year ended

December 31, 2003 and as of and for the six months ended June 30, 2004 are not comparable to prior periods. These financial statements may also not be comparable to subsequent periods, as Panamco is only included in our consolidated financial statements for eight months in 2003.

The terms “FEMSA,” “our company,” “we,” “us” and “our” are used in this report to refer to Fomento Económico Mexicano, S.A. de C.V., and, except where the context otherwise requires, its subsidiaries on a consolidated basis. We refer to our subsidiary FEMSA Cerveza, S.A. de C.V. as “FEMSA Cerveza,” our subsidiary FEMSA Comercio, S.A. de C.V. as “FEMSA Comercio” and our subsidiary FEMSA Empaques, S.A. de C.V., as “FEMSA Empaques.” References herein to “U.S. dollars,” “US$” or “$” are to the lawful currency of the United States. References herein to “Mexican pesos,” “Pesos” or “Ps.” are to the lawful currency of the United Mexican States or Mexico.

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
1	Unaudited Pro Forma Consolidated Financial Information, including unaudited pro forma consolidated income statement for the six months ended June 30, 2004 and unaudited pro forma consolidated balance sheet as of June 30, 2004.
2	Operating and Financial Review and Prospects for Six Months Ended June 30, 2004.
3	Unaudited Consolidated Financial Statements, including the notes related thereto for the six months ended June 30, 2004 and 2003 and at June 30, 2004 and December 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 16, 2004

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V.

By: /s/ FEDERICO REYES

Name: **Federico Reyes**
Title: **Executive Vice President of Finance and Planning**

Exhibit 1

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

We prepared the following unaudited pro forma consolidated income statements for the year ended December 31, 2003 and for the six months ended June 30, 2004 and unaudited pro forma consolidated balance sheet as of June 30, 2004 to illustrate the estimated effects on our results of operations and financial condition of the acquisitions of:

- 100% of Panamco on May 6, 2003; and
- 30% of our subsidiary FEMSA Cerveza from affiliates of Interbrew S.A., or Interbrew, in accordance with the agreements signed on May 23, 2004, which also include the assignment of the rights to FEMSA Cerveza's beer brands in the United States back to Wisdom Import Sales Co. LLC, a wholly owned subsidiary of FEMSA Cerveza, in consideration for the redemption of its 30% interest in Labatt USA LLC and Latrobe Brewing Company LLC, which we collectively refer to as Labatt USA, and the related financing transactions.

The unaudited pro forma income statements give effect to these transactions as if they had occurred on January 1, 2003, and the unaudited pro forma balance sheet as if they had occurred on June 30, 2004.

The unaudited pro forma financial information was prepared in accordance with Mexican GAAP. A reconciliation of unaudited pro forma majority net income and unaudited pro forma stockholders' equity to U.S. GAAP is provided in Note 4 below.

The unaudited pro forma financial information does not purport to indicate the results of operations and financial position that would actually have occurred had the transactions occurred on the dates indicated or which may be expected to be achieved in the future.

The following unaudited pro forma financial information should be read in conjunction with the "Operating and Financial Review and Prospects" sections contained in the prospectus to which this report is incorporated by reference and in Exhibit 2 to this report, as well as with Notes 25 and 26 to our audited consolidated financial statements as of and for the year ended December 31, 2003 contained in our annual report on Form 20-F for the year ended December 31, 2003, filed with the SEC on April 8, 2004, and Notes 27 and 28 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2004 contained in Exhibit 3 to this report.

Unaudited Pro Forma Consolidated Income Statement
Year Ended December 31, 2003

	FEMSA As Reported (1)	Panamco Income Statement from January to April 2003 (2)	Panamco Pro forma Adjustments (3)	Termination of FEMSA-Interbrew Joint Venture (4)	Minority Interest of the Pro forma Adjustments (5)	Pro forma (6)
			(in millions of Mexican pesos as of December 31, 2003, except per share data)			
Net sales	Ps.75,597	Ps. 8,224	Ps. —	Ps. —	Ps. —	Ps.83,821
Other operating revenues	294	53	—	—	—	347
Total revenues	75,891	8,277	—	—	—	84,168
Cost of sales	39,371	4,499	(23)	—	—	43,847
Gross profit	36,520	3,778	23	—	—	40,321
Operating expenses:						
Administrative	5,740	609	(5)	—	—	6,344
Sales	18,696	2,192	(52)	—	—	20,836
	24,436	2,801	(57)	—	—	27,180
Income from operations	12,084	977	80	—	—	13,141
Participation in affiliated companies	30	—	—	(30)	—	—
	12,114	977	80	(30)	—	13,141
Integral result of financing:						
Interest expense	(2,540)	(310)	(327)	(618)	—	(3,795)
Interest income	695	53	—	(217)	—	531
Foreign exchange gain (loss)	(2,532)	(239)	61	(199)	—	(2,909)
Gain on monetary position	954	289	235	569	—	2,047
	(3,423)	(207)	(31)	(465)	—	(4,126)
Other expenses, net	(656)	(100)	24	(449)	—	(1,181)
Income before income tax, tax on assets and employee profit sharing	8,035	670	73	(944)	—	7,834
Income tax, tax on assets and employee profit sharing	3,378	279	30	(158)	—	3,529
Consolidated net income	4,657	391	43	(786)	—	4,305
Net majority income	3,093	388	43	(786)	74	2,812
Net minority income	1,564	3	—	—	(74)	1,493
Consolidated net income	Ps. 4,657	Ps. 391	Ps. 43	Ps. (786)	Ps. —	Ps. 4,305
Net majority income: (in Mexican pesos)						
Per Series "B" Share	Ps. 0.521					Ps. 0.474
Per Series "D" Share	0.651					0.592

The accompanying notes are an integral part of this unaudited pro forma consolidated income statement.

Unaudited Pro Forma Consolidated Income Statement
Six Months Ended June 30, 2004

	FEMSA As Reported (1)	Termination of FEMSA-Interbrew Joint Venture (4)	Minority Interest of the Pro forma Adjustments (5)	Pro forma (6)
		(in millions of Mexican pesos as of June 30, 2004, except per share data)		
Net sales	Ps. 43,568	Ps. —	Ps. —	Ps.43,568
Other operating revenues	144	—	—	144
Total revenues	43,712	—	—	43,712
Cost of sales	23,198	—	—	23,198
Gross profit	20,514	—	—	20,514
Operating expenses:				
Administrative	3,124	—	—	3,124
Sales	11,182	—	—	11,182
	14,306	—	—	14,306
Income from operations	6,208	—	—	6,208
Participation in affiliated companies	9	(9)	—	—
	6,217	(9)	—	6,208
Integral result of financing:				
Interest expense	(1,668)	(294)	—	(1,962)
Interest income	180	(76)	—	104
Foreign exchange loss	(167)	(69)	—	(236)
Gain on monetary position	544	234	—	778
	(1,111)	(205)	—	(1,316)
Other expenses, net	(231)	(229)	—	(460)
Income before income tax, tax on assets and employee profit sharing	4,875	(443)	—	4,432
Income tax, tax on assets and employee profit sharing	1,920	(68)	—	1,852
Consolidated net income before extraordinary items	2,955	(375)	—	2,580
Extraordinary items	1,175	—	—	1,175
Consolidated net income	Ps. 4,130	Ps. (375)	Ps. —	Ps. 3,755
Net majority income	2,434	(375)	283	2,342
Net minority income	1,696	—	(283)	1,413
Consolidated net income	Ps. 4,130	Ps. (375)	Ps. —	Ps. 3,755
Net majority income: (in Mexican pesos)				
Per Series "B" Share:				
Before extraordinary items	Ps. 0.319			Ps. 0.304
Extraordinary items	0.090			0.090
Per Series "D" Share:				
Before extraordinary items	Ps. 0.399			Ps. 0.380
Extraordinary items	0.113			0.113

The accompanying notes are an integral part of this unaudited pro forma consolidated income statement.

Unaudited Pro Forma Consolidated Balance Sheet
As of June 30, 2004

	FEMSA June 30, 2004 As Reported (1)	Termination of FEMSA-Interbrew Joint Venture (2)	Pro forma (3)
	(in millions of Mexican pesos as of June 30, 2004)		
Assets			
Current assets:			
Cash and cash equivalents	Ps. 7,890	Ps. (3,624)	Ps. 4,266
Other current assets	13,465	—	13,465
Total current assets	21,355	(3,624)	17,731
Investments in shares	926	(160)	766
Property, plant and equipment	42,887	—	42,887
Other assets	6,445	—	6,445
Intangible assets and goodwill	35,770	9,143	44,913
Total assets	Ps. 107,383	Ps. 5,359	Ps. 112,742
Liabilities and stockholders' equity			
Total current liabilities	16,491	5,756	22,247
Long-term liabilities:			
Bank loans and notes payable	31,774	5,183	36,957
Other long-term liabilities	7,871	—	7,871
Total long-term liabilities	39,645	5,183	44,828
Total liabilities	56,136	10,939	67,075
Stockholders' equity:			
Minority interest in consolidated subsidiaries	20,185	(5,580)	14,605
Majority interest	31,062	—	31,062
Total stockholders' equity	51,247	(5,580)	45,667
Total liabilities and stockholders' equity	Ps. 107,383	Ps. 5,359	Ps. 112,742

The accompanying notes are an integral part of this unaudited pro forma consolidated balance sheet.

Notes to the Unaudited Pro Forma Consolidated Financial Statements

Note 1. Acquisition of Panamco

On May 6, 2003, Coca-Cola FEMSA acquired 100% of the outstanding stock of Panamco for Ps. 29,518 million. As part of the acquisition, our company assumed Ps. 9,085 million of net debt and incurred transaction costs of Ps. 388 million, which consist 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, as well as 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. 2,779 million, an exchange of The Coca-Cola Company's equity interests in Panamco valued at Ps. 7,041 million for new shares of Coca-Cola FEMSA, cash on hand of Ps. 2,820 million and additional indebtedness of Ps. 17,267 million.

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 for the period from May 1, 2003 to December 31, 2003 have been included in the consolidated financial statements of Coca-Cola FEMSA and subsidiaries for the year ended December 31, 2003.

Our 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. 33,420 million included in our 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 we consider non-strategic as well as the elimination of certain intangible assets that were generated from acquisitions previously effected by Panamco.

Note 2. Termination of the FEMSA and Interbrew Joint Venture Agreements

On May 24, 2004, our company entered into a series of agreements with Interbrew, Labatt Brewing Company Limited, or Labatt, and certain of their affiliates to terminate the existing arrangements among affiliates of FEMSA and Interbrew. These agreements provide for payments to be made by affiliates of FEMSA in a total amount of US$ 1.245 billion. Upon completion of the transactions contemplated in the agreements:

- FEMSA will indirectly own 100% of FEMSA Cerveza;
- Interbrew will indirectly own 100% of Labatt USA, its U.S. distribution subsidiary; and
- Labatt USA's right to distribute the FEMSA Cerveza brands in the United States will terminate 120 days after the closing of the transactions.

The closing of these transactions is subject to certain conditions, including the availability of financing for FEMSA (if the closing has not occurred by August 31, 2004) and the consummation of the combination of Interbrew and the Brazilian brewer Companhia de Bebidas das Américas.

The transaction is expected to be financed as follows:

- US$ 295 million of cash on hand;
- US$ 500 million bridge loan to FEMSA, of which a US$ 250 million tranche will be denominated in U.S. dollars and the remaining US$ 250 million tranche will be denominated in Mexican pesos, each to be refinanced with the net proceeds of the global offering and the Mexican B Unit offering described in the prospectus to which this report is incorporated by reference;

- US$ 217 million equivalent in Mexican peso-denominated *certificados bursátiles* issued by FEMSA and guaranteed by FEMSA Cerveza, of which US$ 108.5 million have a maturity of five years and US$ 108.5 million have a maturity of four years;
- US$ 150 million equivalent in a Mexican peso-denominated unsecured term loan to FEMSA with a maturity of four years; and
- US$ 83 million equivalent in a Mexican peso-denominated unsecured term loan to FEMSA Cerveza with a maturity of five years.

Note 3. Unaudited Pro Forma Financial Statements

I. Income Statements: The columns presented in the unaudited pro forma income statements represent the following:

(1) FEMSA as Reported

This column reflects the audited consolidated income statement of FEMSA and subsidiaries for the year ended December 31, 2003 contained in the annual report on Form 20-F for the year ended December 31, 2003, filed with the SEC on April 8, 2004, and the unaudited consolidated income statement of FEMSA and subsidiaries for the six months ended June 30, 2004 included in Exhibit 3 to this report.

(2) Panamco Income Statement

This column reflects the consolidated income statement of Panamco and subsidiaries for the period from January 1, 2003 to April 30, 2003, presented on a Mexican GAAP basis and incorporating the accounting policies of Coca-Cola FEMSA.

(3) Panamco Pro Forma Adjustments

This column reflects the pro forma adjustments, which are as follows:

(a) The fair value adjustments to Panamco's assets discussed in Note 1 resulted in a decrease in depreciation and amortization, in cost of sales, administrative expenses, selling expenses and other expenses in an aggregate amount of Ps. 100 million. These adjustments resulted mainly from our reduction of the historical book values of the Panamco assets prior to the acquisition to their fair value at the time of the acquisition.

(b) Pro forma adjustments to the integral result of financing include a net increase of interest expense, as well as a foreign exchange gain and a gain on monetary position. The net increase in interest expense resulted from the assumption of new debt to finance the Panamco acquisition and was partially offset by the reduction of interest expense resulting from the retirement of certain of Panamco's pre-acquisition debt. The U.S. dollar denominated debt used to acquire Panamco resulted in a foreign exchange gain due to the appreciation of the Mexican peso against the U.S. dollar during the period from January 1, 2003 to April 30, 2003. The gain on monetary position resulted from the effect of Mexican inflation on the debt used to acquire Panamco during the period from January 1, 2003 to April 30, 2003.

(c) Pro forma adjustments to income taxes and employee profit sharing resulted from the application of the statutory rates to the adjustments described above.

(d) Pro forma adjustments to minority interest of Coca-Cola FEMSA resulted from the application of the minority participation percentage to the pro forma adjustments describe above.

(4) Termination of the FEMSA-Interbrew Joint Venture

This column reflects the pro forma adjustments, which are as follows:

(a) The cancellation of the equity method in the Labatt USA investment.

(b) The incremental integral cost of financing for the year ended December 31, 2003 and the six months ended June 30, 2004 generated by the bridge loan, *certificados bursátiles* and term loans incurred to finance the transactions as well as the decrease in cash and cash equivalents of US$ 295 million, as if the transactions had occurred on January 1, 2003. The following additional assumptions are made:

(i) The interest expense was calculated in accordance with the financing agreements expected to be entered into and applicable interest rates during each period;

- For the U.S. dollar-denominated tranche of the bridge loan, the interest rate is the six-month London interbank offered rate (LIBOR) plus a 0.25% margin;
- For the Mexican peso-denominated tranche of the bridge loan, the interest rate is the *Tasa de Interés Interbancaria de Equilibrio* (TIIE) plus a 0.15% margin;
- For the issuance of Mexican peso-denominated *certificados bursátiles*, the interest rates are TIIE plus a 0.30% margin and *Certificados de la Tesorería* (CETES) plus a 0.89% margin;
- For the FEMSA long-term Mexican peso-denominated loan, the interest rate is TIIE plus a 0.35% margin; and
- For the FEMSA Cerveza long-term Mexican peso-denominated loan, the interest rate is TIIE plus a 0.375% margin.

(ii) The foreign exchange loss generated by the devaluation of the Mexican peso against the U.S. dollar with respect to the U.S. dollar-denominated bridge facility; and

(iii) The gain on monetary position was calculated by applying factors derived from the Mexican Consumer Price Index on a monthly basis. The balance of accrued interest was calculated considering quarterly payments of interest for the U.S. dollar-denominated bridge facility and monthly payments of interest for the rest of the financings.

(c) Pro forma adjustment related to the amortization of the goodwill generated in the transactions over a 20-year period.

(d) Pro forma adjustments to income taxes and employee profit sharing resulted from the application of the statutory rates to the adjustments related to the incremental integral cost of the financings described above.

(5) Minority Interest to the Pro Forma Adjustments

This column reflects the pro forma adjustments to minority interest in FEMSA for Coca-Cola FEMSA and FEMSA Cerveza, resulting in the net effect of:

(a) The recognition of minority interest in Coca-Cola FEMSA by applying 54.3% to the net majority income of the pro forma adjustments described in columns (2) and (3), which amounted to Ps. 234 million in December 31, 2003.

(b) The cancellation of the 30% Interbrew participation in FEMSA Cerveza, which amounted to Ps. 308 million and Ps. 283 million at December 31, 2003 and June 30, 2004, respectively.

(6) Pro Forma

This column is the sum of the previous five columns and reflects the results of FEMSA under Mexican GAAP as if the acquisition of Panamco and the termination of the FEMSA-Interbrew joint venture had occurred on January 1, 2003.

II. Balance Sheet: The columns presented in the unaudited pro forma balance sheet represent the following:

(1) FEMSA as Reported

This column reflects the historical unaudited consolidated balance sheet of FEMSA and subsidiaries as of June 30, 2004, which is included in Exhbit 3 to this report.

(2) Termination of the FEMSA and Interbrew Joint Venture Agreements

This column reflects the pro forma adjustments, which are as follows:

(a) The decrease in cash and cash equivalents corresponding to the cash available for the transactions.

(b) The cancellation of the Labatt USA investment in shares at equity method value.

(c) The increase in short-term and long-term liabilities corresponding to the financings described above in Note 2.

(d) The cancellation of the 30% participation of Interbrew in the stockholders' equity of FEMSA Cerveza at book value.

(e) The intangible asset generated in the acquisition transaction that is the difference between the book value of the net investment and the total price paid, which includes an estimated US$ 20 million of fees and expenses to be paid in cash.

(3) Pro Forma

This column is the sum of the previous two columns and reflects the financial position of FEMSA as if the termination of FEMSA-Interbrew joint venture had occurred on June 30, 2004.

Note 4. Reconciliation of Mexican GAAP to U.S. GAAP

Our unaudited pro forma financial information was prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. A description of the reconciling items and a reconciliation of the reported majority net income and majority stockholders' equity to U.S. GAAP are included in Notes 25 and 26, respectively, to our audited consolidated financial statements as of and for the year ended December 31, 2003 contained in our annual report on Form 20-F for the year ended December 31, 2003, filed with the SEC on April 8, 2004, and in Notes 27 and 28 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2004, included in Exhibit 3 to this report.

(a) Reconciliation of unaudited pro forma majority net income in millions of Mexican pesos as of June 30, 2004 and December 31, 2003 as applicable:

	June 30, 2004	December 31, 2003
Unaudited pro forma majority net income under Mexican GAAP	Ps.2,342	Ps.2,812
U.S. GAAP adjustments:		
Deferred promotional expenses	(68)	(101)
Start-up expenses	(9)	(27)
Intangible assets and goodwill	236	463
Restatement of imported machinery and equipment	(15)	(73)
Capitalization of integral result of financing	(13)	(24)
Financial instruments	29	136
Deferred income taxes	181	178
Deferred employee profit sharing	18	129
Pension plan	(13)	(18)
Minority interest in U.S. GAAP adjustments	(37)	10
Total adjustments	309	673
Unaudited pro forma net income under U.S. GAAP	Ps.2,651	Ps.3,485
Net income:		
(in Mexican pesos)		
Per Series "B" Share:		
Before extraordinary items	Ps.0.356	Ps.0.587
Extraordinary items	0.090	—
Per Series "D" Share:		
Before extraordinary items	Ps.0.445	Ps.0.734
Extraordinary items	0.113	—

(b) Reconciliation of unaudited pro forma stockholders' equity in millions of Mexican pesos:

	June 30, 2004
Unaudited pro forma majority stockholders' equity under Mexican GAAP	Ps.31,062
U.S. GAAP adjustments:	
Deferred promotional expenses	(181)
Start-up expenses	(125)
Intangible assets and goodwill	79
Restatement of imported machinery and equipment	(26)
Capitalization of integral result of financing	477
Financial instruments	303
Deferred income taxes	(221)
Deferred employee profit sharing	(1,610)
Pension plan	40
Minority interest in U.S. GAAP adjustments	173
Acquisition of minority interest	14,849
Total adjustments	13,758
Unaudited pro forma stockholders' equity under U.S. GAAP	Ps.44,820

Note 5. Financial Instruments

In connection with the financing of the Interbrew transactions, we entered into forward contracts to buy U.S. dollars. The aggregate amount of the forward contracts is US$ 940 million with maturity dates from July to December 2004 and with a compounded average forward exchange rate of 11.63 Mexican pesos per U.S. dollar.

We did not estimate exchange rates applicable at the expected closing dates of the financings and the transactions. Any exchange rate variations between the exchange rate as of the day on which the transactions close and the forward exchange rate will be recorded as a foreign exchange gain or loss, as applicable, in our income statement.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS FOR THE SIX MONTHS ENDED JUNE 30, 2004

General

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements in our annual report on Form 20-F as of and for the year ended December 31, 2003, filed with the SEC on April 8, 2004, and our unaudited consolidated financial statements as of and for the six months ended June 30, 2004, which are included in Exhibit 3 to this report, and in each case the notes to those financial statements. Our consolidated financial statements were prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. Notes 25 and 26 to our consolidated financial statements contained in our annual report on Form 20-F for the year ended December 31, 2003 and Notes 27 and 28 to our unaudited consolidated financial information for the six months ended June 30, 2004 provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of net majority income, majority shareholders' equity and certain other selected financial data.

Our consolidated financial statements include the financial statements of FEMSA and those of all companies in which we own directly or indirectly a majority of the outstanding voting capital stock and/or exercise control.

Unless otherwise specified, we have presented all financial data for full-year periods included in our consolidated financial statements in constant Mexican pesos at December 31, 2003. We have presented all financial data as of June 30, 2004 and for the six months ended June 30, 2004 and June 30, 2003 in constant Mexican pesos at June 30, 2004. We believe that the effect of not restating the financial data for the full-year periods included in our consolidated financial statements in constant Mexican pesos as of June 30, 2004 is not material, as the Mexican Consumer Price Index was 1.63% for the six months ended June 30, 2004.

Recent Developments

In May 2004, our subsidiary Coca-Cola FEMSA 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. As a result of the ruling, our consolidated net income for the first six months of 2004 increased by Ps. 1.258 billion. In August 2004, we received Ps. 1.124 billion in the form of a cash reimbursement and will receive the balance in the form of a tax deduction.

On August 12, 2004, we entered into a series of credit agreements to finance the purchase of the 30% interest in FEMSA Cerveza owned by affiliates of Interbrew S.A., or Interbrew. The following is a summary of the maximum borrowings permitted under the credit agreements:

- Bridge loans to FEMSA in the amount of up to US$ 500 million, maturing one year from the borrowing date and consisting of a US$ 250 million loan denominated in Mexican pesos and a US$ 250 million loan denominated in U.S. dollars;
- A term loan to FEMSA in the amount of up to US$ 150 million, maturing four years from the borrowing date; and
- A term loan to FEMSA Cerveza in the amount of up to US$ 100 million, maturing five years from the borrowing date.

We expect the borrowings under these agreements to occur on or prior to the closing of the Interbrew transactions.

Comparability of Information Presented

Panamco Acquisition

Under Mexican GAAP, Panamco is included in our consolidated financial statements since May 2003 and is not reflected for periods prior to this date. As a result, our consolidated financial statements as of and for the year ended December 31, 2003 and as of and for the six months ended June 30, 2004 are not comparable to prior periods. Financial information provided by us with respect to the newly acquired territories is also not comparable to Panamco's consolidated financials statements for prior periods as they were prepared using different policies and in accordance with U.S. GAAP and in U.S. dollars, while we present our financial statements in Mexican GAAP and Mexican pesos as part of our consolidation. The acquisition of Panamco only impacted the comparability of our consolidated information and of the Coca-Cola FEMSA segment. The comparability of our remaining segments was not affected by the acquisition.

Transfer of "Six" Stores

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. This amounted to 319 "Six" stores. We believe the transfer will increase FEMSA Cerveza's ability to focus on its core operations, while providing FEMSA Comercio with a number of proven locations. We expect to convert approximately two-thirds of the transferred "Six" stores into Oxxo stores during 2004, and to convert the remaining stores thereafter. In order to assure comparability, and in accordance with Mexican GAAP, the financial results of these "Six" stores were removed from FEMSA Cerveza and included in FEMSA Comercio for the first six months of 2003. This change does not impact FEMSA's consolidated results.

Operating Results

The following table sets forth FEMSA consolidated financial results for the six months ended June 30, 2004 and 2003.

	Six Months Ended June 30,	
	2004	2003
	(in millions of constant Mexican pesos at June 30, 2004)	
Net sales	Ps.43,568	Ps.33,304
Other operating revenues	144	135
Total revenues	43,712	33,439
Cost of sales	23,198	17,356
Gross profit	20,514	16,083
Operating expenses:		
Administrative	3,124	2,653
Sales	11,182	8,132
Total operating expenses	14,306	10,785
Income from operations	6,208	5,298
Participation in affiliated companies	9	(21)
	6,217	5,277
Integral result of financing:		
Interest expense	(1,668)	(961)
Interest income	180	343
	(1,488)	(618)
Foreign exchange loss	(167)	(971)
Gain on monetary position	544	36
	(1,111)	(1,553)
Other expenses, net	(231)	(568)
Income before income tax, tax on assets and employee profit sharing	4,875	3,156
Income tax, tax on assets and employee profit sharing	1,920	1,329
Consolidated net income before extraordinary items	2,955	1,827
Extraordinary items	1,175	—
Consolidated net income	Ps. 4,130	Ps. 1,827
Net majority income	2,434	1,217
Net minority income	1,696	610
Consolidated net income	Ps. 4,130	Ps. 1,827

Results of Operations by Business Segment

The following table sets forth certain financial information for each of our business segments for the six months ended June 30, 2004 and 2003:

	Six Months Ended June 30,	
	2004	2003
	(in millions of constant Mexican pesos at June 30, 2004, except for percentages)	
Net Sales		
Coca-Cola FEMSA	Ps.21,523	Ps.13,711
FEMSA Cerveza	10,940	10,376
FEMSA Comercio	10,128	8,307
FEMSA Empaques	3,873	3,547
Total Revenues		
Coca-Cola FEMSA	21,642	13,828
FEMSA Cerveza	11,024	10,444
FEMSA Comercio	10,128	8,307
FEMSA Empaques	3,885	3,559
Cost of Sales		
Coca-Cola FEMSA	11,111	6,877
FEMSA Cerveza	4,616	4,388
FEMSA Comercio	7,488	6,153
FEMSA Empaques	2,998	2,720
Gross Profit		
Coca-Cola FEMSA	10,531	6,951
FEMSA Cerveza	6,408	6,056
FEMSA Comercio	2,640	2,154
FEMSA Empaques	887	839
Income from Operations[(1)]		
Coca-Cola FEMSA	3,331	2,877
FEMSA Cerveza[(2)]	1,904	1,590
FEMSA Comercio	346	305
FEMSA Empaques	513	466
Depreciation		
Coca-Cola FEMSA[(3)]	909	569
FEMSA Cerveza	581	589
FEMSA Comercio	114	63
FEMSA Empaques	147	131
Gross Margin[(4)]		
Coca-Cola FEMSA	48.7%	50.3%
FEMSA Cerveza	58.1%	58.0%
FEMSA Comercio	26.1%	25.9%
FEMSA Empaques	22.8%	23.6%
Operating Margin[(5)]		
Coca-Cola FEMSA	15.4%	20.8%
FEMSA Cerveza	17.3%	15.2%
FEMSA Comercio	3.4%	3.7%
FEMSA Empaques	13.2%	13.1%

(1) Includes management fees paid to Grupo Industrial Emprex, S.A. de C.V., a direct subsidiary of FEMSA, and to Labatt in the case of FEMSA Cerveza.
(2) Includes equity method of affiliated companies, a gain of Ps. 9 million and a loss of Ps. 21 million, respectively.
(3) Includes breakage of bottles of Coca-Cola FEMSA.
(4) Gross margin calculated with reference to total revenues.
(5) Operating margin calculated with reference to total revenues and after deduction of management fees.

Results of Operations for Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

FEMSA Consolidated

Total Revenues

Our consolidated total revenues increased by 30.7% to Ps. 43.712 billion for the first six months of 2004, from Ps. 33.439 billion during the same period of 2003. The increase in total revenues was driven by growth in every one of our main operating companies. The growth in total revenues during the first six months of 2004 includes: (1) a 56.5% increase in total revenues from Coca-Cola FEMSA due mainly to the acquisition of Panamco that took place in May 2003 and the inclusion of the new Coca-Cola FEMSA territories from that date; (2) revenue growth of 21.9% at FEMSA Comercio due to growth in net new Oxxo stores; (3) a 5.5% increase in total sales volume, reaching 12.574 million hectoliters at FEMSA Cerveza, that resulted in revenue growth of 5.6%; and (4) a 9.2% increase in total revenues at FEMSA Empaques due to growth in demand for glass bottles, crown caps and, to a lesser extent, beverage cans.

Gross Profit

Our cost of sales increased to Ps. 23.198 billion during the first six months of 2004 compared to Ps. 17.356 billion during the first six months of 2003, an increase of 33.7%. This increase primarily resulted from increased sales volume of our principal products and the inclusion of the new Coca-Cola FEMSA territories.

Our gross margin decreased 1.2% to 46.9% of total revenues during the first six months of 2004 compared to 48.1% for the same period of 2003. The decrease in gross margin was primarily due to the inclusion of the new Coca-Cola FEMSA territories and, to a lesser extent, the increased contribution to our consolidated financial results of the Oxxo retail chain, which has a lower gross margin, and a slight contraction in the gross margin of FEMSA Empaques due to a decrease in real terms in the price of some of its products.

Income from Operations

Our operating expenses increased to Ps. 14.306 billion during the first six months of 2004 compared to Ps. 10.785 billion during the same period of 2003, an increase of 32.6%. This increase was due to the inclusion of the new Coca-Cola FEMSA territories, an increase in administrative expenses from the amortization of the Enterprise Resource Planning, or ERP, at FEMSA Cerveza and an increase in administrative expenses at FEMSA Comercio due to the opening of two new regional administrative offices to support the expanded Oxxo operations.

Our income from operations (including results of affiliated companies) increased 17.8% to Ps. 6.217 billion during the first six months of 2004 from Ps. 5.277 billion during the first six months of 2003, resulting in an operating margin of 14.2%.

The contraction in operating margin of 1.6% from the first six months of 2003 primarily resulted from: (1) the integration of Coca-Cola FEMSA's newly acquired Mexican bottling territories that have a lower level of profitability than Coca-Cola FEMSA's original territories; and (2) the increased contribution to our consolidated financial results of the Oxxo retail chain, which has a lower operating margin. This reduction in operating margin was partially offset by an operating margin improvement of 1.9% at FEMSA Cerveza and of 0.1% at FEMSA Empaques.

Integral Cost of Financing

Net interest expense amounted to Ps. 1.488 billion during the first six months of 2004 compared to Ps. 618 million during the same period of 2003. This increase is primarily due to interest expense related to new debt issued by Coca-Cola FEMSA in order to finance the acquisition of Panamco.

Foreign exchange loss amounted to Ps. 167 million during the first six months of 2004 compared to Ps. 971 million during the first six months of 2003. The lower loss represented a significant reduction from the loss in the first six months of 2003, which resulted from exchange rate volatility and the large foreign exchange transactions entered into in connection with the Panamco acquisition. In addition, FEMSA and FEMSA Cerveza generated a foreign exchange gain of Ps. 214 million during the first half of 2004 due to the appreciation of the U.S. dollars acquired for the acquisition of 30% of FEMSA Cerveza. The peso depreciated 2.5% in nominal terms versus the U.S. dollar during the first six months of 2004.

Monetary position gain amounted to Ps. 544 million during the first six months of 2004, compared to Ps. 36 million during the first six months of 2003. This higher gain reflects the inflationary impact over the higher liabilities recorded in the first six months of 2004 compared to the same period last year.

Taxes

Tax recognized during the first six months of 2004 amounted to Ps. 1.920 billion, which includes income tax, tax on assets and employee profit sharing (“taxes”), compared to Ps. 1.329 billion during the first six months of 2003. The effective tax rate for the first six months of 2004 was 39.4% and compares favorably to the 42.1% rate in the same period of 2003. The effective tax rate differs from the statutory tax rate as a result of certain permanent differences, such as non-deductible expenses and differences between the book and tax effects of inflation, as well as the effect of the change in the statutory income tax rate in Mexico.

Extraordinary Items

In May 2004, our subsidiary Coca-Cola FEMSA 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. As a result of this ruling, our consolidated net income for the first six months of 2004 increased by Ps. 1.258 billion. This increase was partially offset by a decrease of Ps. 83 million due to a change in the tax deduction criteria for the coolers owned by Coca-Cola FEMSA in Mexico, resulting in a net extraordinary gain of Ps. 1.175 billion for the first six months of 2004.

Net Income

Net income increased 126.1% and reached Ps. 4.130 billion during the first six months of 2004 as compared to Ps. 1.827 billion during the same period of 2003. Net majority income amounted to Ps. 2.434 billion for the first six months of 2004 compared with Ps. 1.217 billion during the same period of 2003.

Capital Expenditures

Capital expenditures amounted to Ps. 2.884 billion for the first six months of 2004 compared to Ps. 3.129 billion for the same period of 2003. This lower level of capital expenditures is a result of: (1) investments we completed during 2003 at FEMSA Empaques for refurbishment of one of our glass bottle furnaces that were no longer incurred in 2004; (2) higher investments at FEMSA Comercio as it increased its store growth during the first six months of 2004 compared to the same period of 2003; (3) timing of our capital investments at FEMSA Cerveza during 2004 compared to 2003; and (4) a decline in the capital expenditures at Coca-Cola FEMSA for the first six months of 2004 compared to the same period of 2003.

Coca-Cola FEMSA

Total Revenues

Coca-Cola FEMSA’s total revenues reached Ps. 21.642 billion during the first six months of 2004, an increase of 56.5% from the same period of 2003. This resulted from an increase of 73.5% in sales volume and a reduction of 9.6% in the average price per unit case. Sales volume reached 895.2 million unit cases during the first six months of 2004 compared to 515.9 million unit cases during the first six months of 2003. The volume increase was primarily due to the inclusion of the new Coca-Cola FEMSA territories.

The average price per unit case for the first six months of 2004 was Ps. 24.04, which represents a 9.6% decline from the same period during 2003 resulting from a reduction in prices due to an increasingly competitive environment throughout all of Coca-Cola FEMSA's territories, and due to the inclusion of the new Coca-Cola FEMSA territories, which have a lower price per ounce.

Gross Profit

Cost of sales reached Ps. 11.111 billion during the first six months of 2004 compared to Ps. 6.877 billion during the same period of 2003. This increase primarily resulted from the inclusion of the new Coca-Cola FEMSA territories, and in part, from an increase in the cost of raw materials due to price increases and devaluation of the Mexican peso and the Venezuelan bolivar versus the U.S. dollar.

Gross margin reached 48.7% during the first six months of 2004 compared to 50.3% during the first six months of 2003. This reduction is primarily due to a decline in Coca-Cola FEMSA's average prices during the period.

Income from Operations

Operating expenses reached Ps. 7.201 billion during the first six months of 2004 compared to Ps. 4.074 billion during the first six months of 2003. This increase was primarily due to the inclusion of the new Coca-Cola FEMSA territories, as well as higher operating expenses related to the standardization of cooler and distribution fleet maintenance practices, and the amortization expense corresponding to the introduction of new cooler equipment.

Income from operations increased to Ps. 3.331 billion during the first six months of 2004 compared to Ps. 2.877 billion during the same period of 2003, representing a 15.8% increase, which primarily reflected the integration of our newly acquired territories. Operating margin was 15.4% in the first six months of 2004 compared to 20.8% in the same period in 2003. This decline in operating margin was primarily due to a reduction in average prices attributable to increased competition in Coca-Cola FEMSA's previous territories and the inclusion of Coca-Cola FEMSA's newly acquired territories, which have a higher cost structure as a percentage of total revenues as compared to Coca-Cola FEMSA's previous territories.

FEMSA Cerveza

Total Revenues

Domestic sales volume grew by 4.0% to 11.395 million hectoliters during the first six months of 2004. We attribute this increase to successful promotions, particularly with the *Sol*, *Indio* and *Tecate Light* brands, and improved economic conditions in our main territories. During the month of February 2004 we implemented a 5.0% average price increase.

Export sales volume grew by 22.9% to 1.179 million hectoliters during the first six months of 2004. This growth was primarily due to an increase in sales to the United States, where we estimate that the increase in sales from our distributors to retailers was approximately 14.0%, while the remaining growth came from inventory build-up at our distributors. This 14.0% increase was primarily due to marketing strategies for our *Tecate* and *Dos Equis* brands, and the overall improvement in the U.S. economy during the first half of 2004.

Total revenues increased by 5.6% to Ps. 11.024 billion during the first six months of 2004 from Ps. 10.444 billion during the same period of 2003. Domestic revenues represented 92% of the total, while the remaining 8% came from exports. The 5.0% domestic average price increase in nominal terms was not fully reflected in the sales figures for the first six months of 2004 because it was implemented gradually throughout February.

Gross Profit

Cost of sales increased 5.2% to Ps. 4.616 billion during the first six months of 2004. This increase was 0.4% less than total sales growth due to operating efficiencies, better purchasing terms for raw materials, headcount reductions and lower transportation costs from our breweries to the warehouses. Gross profit reached Ps. 6.408 billion during the first six months of 2004, a 5.8% increase compared to the same period of 2003, resulting in a gross margin of 58.1%, in line with 2003 levels. The margin during the first six months of 2004 was impacted by two offsetting factors: (1) an increase in U.S. dollar-denominated costs, which represent approximately one-third of the cost of sales; and (2) better purchasing terms for raw materials, operating efficiencies resulting in more hectoliters per employee and lower transportation costs from our breweries to the warehouses.

Income from Operations

Administrative expenses increased 6.2% to Ps. 1.247 billion during the first six months of 2004 compared to Ps. 1.174 billion during the same period of 2003. This increase was primarily due to the continued amortization of our ERP.

Selling expenses remained in line with 2003 levels, increasing 0.1% to Ps. 3.059 billion during the first six months of 2004. At 27.7% of total revenues, selling expenses as a percentage of revenues were below levels for the first six months of 2003 of 29.3% as a result of higher sales and more effective management of selling expenses.

Participation in affiliated companies reflected a gain of Ps. 9.1 million during the first half of 2004, compared to a loss of Ps. 21.2 million during the first half of 2003. This increase is primarily due to a higher sales volume and cost reduction measures at Labatt USA.

Income from operations (before deduction of management fees) increased 17.0% to Ps. 2.112 billion during the first six months of 2004 from Ps. 1.805 billion during the first six months of 2003. Income from operations (after deduction of management fees) increased 19.8% to Ps. 1.904 billion during the first six months of 2004 from Ps. 1.590 billion during the first six months of 2003. This increase reflects an improved pricing environment, solid volume growth and more efficient and effective use of selling expenses. Operating margin (before deduction of management fees) increased to 19.2% of total revenues during the first six months of 2004 from 17.3% of total revenues during the first six months of 2003, and operating margin (after deduction of management fees) increased to 17.3% of total revenues during the first six months of 2004 from 15.2% of total revenues during the first six months of 2003. The margin expansion is attributable to higher sales volume, stable fixed costs, production efficiencies and the effective implementation of expense containment initiatives.

FEMSA Comercio

Total Revenues

Total revenues increased by 21.9% to Ps. 10.128 billion during the first six months of 2004 from Ps. 8.307 billion during the same period of 2003. As of June 30, 2004, we had 3,086 convenience stores nationwide, an increase of 687 net new stores from June 30, 2003.

Same-store sales increased an average of 7.7% during the first six months of 2004, reflecting an increase in the average ticket of 4.1% and an increase in store traffic of 3.4%. Same-store sales growth is calculated by comparing the sales of stores for each year that have been in operation for at least 13 months with the sales of those during the previous year. The expansion achieved in the average ticket and same store sales figures reflects the rapid pace of expansion as well as stronger category management practices that enabled Oxxo to improve the mix of products within the store. This positive trend in same store sales growth can be seen across Mexico.

Gross Profit

Cost of sales for the first half of 2004 remained in line with sales growth reaching Ps. 7.488 billion compared to Ps. 6.153 billion during the first six months of 2003, an increase of 21.7%. As a result, gross profit expanded to 26.1% of total revenues as compared to 25.9% of total revenues for the first half of 2003.

Income from Operations

Administrative expenses increased 47.3% to Ps. 204 million during the first six months of 2004 compared to Ps. 138 million during the first six months of 2003. This increase resulted from expenses and amortization of investments associated with new information technology systems throughout the Oxxo chain that can no longer be capitalized, investments in personnel training and development and the opening of two new regional administrative offices.

Selling expenses increased in line with revenues to Ps. 2.036 billion, or 20.1% of total revenues, during the first six months of 2004. Part of the increase in operating expenses reflected increased efforts to improve the overall product and service offering at our stores.

Income from operations (before deduction of management fees) increased 17.4% to Ps. 401 million during the first six months of 2004 compared to Ps. 341 million during the same period of 2003. The increase in operating income was due to increased revenues from expanded operations and reductions in selling expenses as a percentage of total revenues. Operating margin (before deduction of management fees) reached 4.0% of total sales for the first six months of 2004, in line with the 4.1% achieved in the first half of 2003. Income from operations (after deduction of management fees) amounted to Ps. 346 million during the first six months of 2004, representing 3.4% of total revenues and a decrease in operating margin of 0.3% compared to the same period of 2003.

FEMSA Empaques

Total Revenues

Total revenues increased by 9.2% to Ps. 3.885 billion during the first six months of 2004 compared to Ps. 3.559 billion during the same period of 2003. This increase was attributed to (1) a 15.4% increase in the sales volume of glass bottles, mainly due to strong demand from FEMSA Cerveza and Coca-Cola FEMSA; (2) a 17.4% increase in the sales volume of crown caps, mainly due to higher demand from U.S. customers; (3) a 3.1% increase in the sales volume of beverage cans, mainly to Coca-Cola FEMSA and FEMSA Cerveza; and (4) the depreciation of the Mexican peso, which offset a decrease in the average price of these products in U.S. dollar terms.

Gross Profit

Cost of sales reached Ps. 2.998 billion during the first six months of 2004 compared to Ps. 2.720 billion during the first six months of 2003. This increase of 10.2% was primarily due to the increase in sales volume of its principal products over the same period. Gross profit increased by 5.7% to Ps. 887 million during the first six months of 2004 compared to Ps. 839 million during the first six months of 2003. As a percentage of total revenues, the gross profit margin declined to 22.8% during the first six months of 2004 from 23.6% during the first six months of 2003, primarily reflecting a slight price decrease in real terms for FEMSA Empaques' principal products. The real price decrease was due to competitive market conditions and a lower rate of Mexican peso devaluation compared to the same period of the previous year, which decreased FEMSA Empaques' U.S. dollar-denominated revenues.

Income from Operations

Operating expenses decreased 0.8% to Ps. 316 million during the first six months of 2004 compared to Ps. 319 million in the first six months of 2003. This slight decrease was due to a 2.2% reduction in administrative expenses as a result of a reduction in the administrative structure and a 0.3% reduction in selling expenses as a result of reduced shipping expenses related to the can export business and efficiencies in the distribution of our products in Mexico.

Income from operations (before deduction of management fees) increased by 9.6% to Ps. 571 million during the first six months of 2004. Operating margin was 14.7% of total revenues in the first six months of 2004 compared to 14.6% during the first six months of 2003. Income from operations (after management fees) amounted to Ps. 513 million during the first six months of 2004, a 10.0% increase from the same period of 2003, resulting in an operating margin of 13.2% of total revenues, a slight improvement from the first six months of 2003.

FEMSA Consolidated Total Indebtedness

As of June 30, 2004, FEMSA recorded a cash balance of Ps. 7.890 billion and total consolidated indebtedness of Ps. 36.464 billion, compared to Ps. 7.733 billion and Ps. 38.361 billion, respectively, as of December 31, 2003. This consolidated total debt decrease resulted from a reduction in the total debt at Coca-Cola FEMSA and in FEMSA Empaques, which was offset by an increase of total debt at FEMSA Cerveza and FEMSA Comercio.

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

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FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

Consolidated Balance Sheets
At June 30, 2004 and December 31, 2003
Amounts expressed in millions of U.S. dollars ($) and
in millions of constant Mexican pesos (Ps.) as of June 30, 2004

	Unaudited June 30, 2004		December 31, 2003
ASSETS			
Current Assets:			
Cash and cash equivalents	**$ 685**	**Ps. 7,890**	Ps. 7,907
Accounts receivable	**378**	**4,349**	4,202
Inventories	**607**	**6,986**	7,020
Recoverable taxes	**121**	**1,388**	654
Prepaid expenses	**64**	**742**	640
Total current assets	**1,855**	**21,355**	20,423
Investments in shares	**80**	**926**	950
Property, plant and equipment	**3,725**	**42,887**	43,219
Other assets	**561**	**6,445**	6,431
Intangible assets and goodwill	**3,107**	**35,770**	35,465
TOTAL ASSETS	**$ 9,328**	**Ps. 107,383**	Ps. 106,488
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Bank loans	**$ 180**	**Ps. 2,070**	Ps. 2,498
Interest payable	**37**	**425**	411
Current maturities of long-term debt	**228**	**2,620**	2,639
Suppliers	**565**	**6,500**	7,154
Taxes payable	**134**	**1,547**	1,463
Accounts payable, accrued expenses and other liabilities	**289**	**3,329**	2,994
Total current liabilities	**1,433**	**16,491**	17,159
Long-Term Liabilities:			
Bank loans and notes payable	**2,760**	**31,774**	33,943
Labor liabilities	**170**	**1,953**	1,874
Deferred income taxes	**292**	**3,364**	3,922
Other liabilities	**222**	**2,554**	2,535
Total long-term liabilities	**3,444**	**39,645**	42,274
Total liabilities	**4,877**	**56,136**	59,433
Stockholders' Equity:			
Minority interest in consolidated subsidiaries	**1,753**	**20,185**	18,017
Majority interest:			
Capital stock	**375**	**4,312**	4,312
Additional paid-in capital	**1,064**	**12,257**	12,257
Retained earnings from prior years	**1,593**	**18,341**	15,708
Net income	**211**	**2,434**	3,165
Cumulative translation adjustment	**(59)**	**(683)**	(637)
Cumulative result of holding non-monetary assets	**(486)**	**(5,599)**	(5,767)
Total majority interest	**2,698**	**31,062**	29,038
Total stockholders' equity	**4,451**	**51,247**	47,055
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 9,328**	**Ps. 107,383**	Ps. 106,488

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

Monterrey, N.L., Mexico, July 19, 2004

/s/ JOSÉ ANTONIO FERNÁNDEZ CARBAJAL
Chief Executive Officer

/s/ FEDERICO REYES GARCÍA
Chief Financial Officer

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

Consolidated Income Statements (Unaudited)
For the six months ended June 30, 2004 and 2003
Amounts expressed in millions of U.S. dollars ($) and
in millions of constant Mexican pesos (Ps.) as of June 30, 2004, except per share data

	Six Months Ended June 30,		
	2004		2003
Net sales	**$ 3,785**	**Ps.43,568**	Ps.33,304
Other operating revenues	**13**	**144**	135
Total revenues	**3,798**	**43,712**	33,439
Cost of sales	**2,015**	**23,198**	17,356
Gross profit	**1,783**	**20,514**	16,083
Operating expenses:			
Administrative	**271**	**3,124**	2,653
Sales	**971**	**11,182**	8,132
	1,242	**14,306**	10,785
Income from operations	**541**	**6,208**	5,298
Participation in affiliated companies	**1**	**9**	(21)
	542	**6,217**	5,277
Integral result of financing:			
Interest expense	**(145)**	**(1,668)**	(961)
Interest income	**16**	**180**	343
Foreign exchange loss	**(15)**	**(167)**	(971)
Gain on monetary position	**47**	**544**	36
	(97)	**(1,111)**	(1,553)
Other expenses, net	**(20)**	**(231)**	(568)
Income before income tax, tax on assets and employee profit sharing	**425**	**4,875**	3,156
Income tax, tax on assets and employee profit sharing	**168**	**1,920**	1,329
Consolidated net income before extraordinary items	**257**	**2,955**	1,827
Extraordinary items	**102**	**1,175**	—
Consolidated net income	**$ 359**	**Ps. 4,130**	Ps. 1,827
Net majority income	**211**	**2,434**	1,217
Net minority income	**148**	**1,696**	610
Consolidated net income	**$ 359**	**Ps. 4,130**	Ps. 1,827
Net majority income (U.S. dollars and constant Mexican pesos):			
Per Series “B” share:			
Before extraordinary items	**$ 0.028**	**Ps. 0.319**	Ps. 0.205
Extraordinary items	**0.008**	**0.090**	—
Per Series “D” share:			
Before extraordinary items	**$ 0.035**	**Ps. 0.399**	Ps. 0.256
Extraordinary items	**0.010**	**0.113**	—

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

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

Consolidated Statements of Changes in Financial Position (Unaudited)
For the six months ended June 30, 2004 and 2003
Amounts expressed in millions of U.S. dollars ($) and
in millions of constant Mexican pesos (Ps.) as of June 30, 2004

	Six Months Ended June 30,		
	2004		2003
Resources Generated by (Used in):			
Operations:			
Consolidated net income before extraordinary items	**$ 257**	**Ps. 2,955**	Ps. 1,827
Extraordinary items	**102**	**1,175**	—
Consolidated net income	**359**	**4,130**	1,827
Depreciation	**154**	**1,768**	1,373
Impairment of long-lived assets	**9**	**109**	419
Deferred taxes	**(39)**	**(454)**	(24)
Amortization and other	**110**	**1,275**	1,083
	593	**6,828**	4,678
Working capital:			
Accounts receivable	**(20)**	**(228)**	49
Inventories	**(25)**	**(288)**	(614)
Prepaid expenses	**(9)**	**(100)**	(251)
Suppliers and other liabilities	**7**	**78**	(932)
Recoverable taxes, net	**(35)**	**(416)**	(888)
Interest payable	**1**	**14**	(58)
Labor liabilities	**(9)**	**(98)**	(6)
Net Resources Generated by Operating Activities	**503**	**5,790**	1,978
Investments:			
Investments in shares	**3**	**36**	6
Property, plant and equipment	**(115)**	**(1,314)**	(1,833)
Intangible assets and other	**(136)**	**(1,570)**	(1,296)
Acquisition of Panamco	**—**	**—**	(29,819)
Other investments	**3**	**29**	(345)
Net Resources Used in Investing Activities	**(245)**	**(2,819)**	(33,287)
Financing Activities:			
Bank loans	**(1,007)**	**(11,597)**	(10,581)
Amortization in real terms of long-term liabilities	**(54)**	**(616)**	(91)
Bank loans acquired during the period	**812**	**9,343**	28,257
Notes payable and others	**20**	**228**	78
Capital contribution by The Coca-Cola Company	**—**	**—**	7,158
Dividends declared and paid	**(71)**	**(815)**	(1,088)
Capital contribution by minority interest	**50**	**570**	—
Cumulative translation adjustment	**(10)**	**(101)**	145
Net Resources Used in Financing Activities	**(260)**	**(2,988)**	23,878
Cash and cash equivalents:			
Net decrease	**(2)**	**(17)**	(7,431)
Initial balance	**687**	**7,907**	15,480
Ending balance	**$ 685**	**Ps. 7,890**	Ps. 8,049

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

FOMENTO ECONÓMICO MEXICANO, S.A. DE C.V. AND SUBSIDIARIES
MONTERREY, N.L., MEXICO

Consolidated Statements of Changes in Stockholders' Equity
For the six months ended June 30, 2004 and 2003 (Unaudited) and the year ended December 31, 2003
Amounts expressed in millions of constant Mexican pesos (Ps.) as of June 30, 2004

	Capital Stock	Additional Paid-in Capital	Retained Earnings from Prior Years	Net Income	Cumulative Translation Adjustment	Cumulative Result of Holding Non-monetary Assets	Total Majority Interest	Minority Interest in Consolidated Subsidiaries	Total Stockholders' Equity
Balances at December 31, 2002	**Ps. 4,312**	**Ps. 10,514**	**Ps. 13,130**	**Ps. 2,993**	**Ps. (438)**	**Ps. (6,082)**	**Ps. 24,429**	**Ps. 10,447**	**Ps. 34,876**
Transfer of prior year income	—	—	2,993	(2,993)	—	—	—	—	—
Dividends declared and paid	—	—	(415)	—	—	—	(415)	(673)	(1,088)
Capital contribution by The Coca-Cola Company	—	1,743	—	—	—	—	1,743	5,415	7,158
Comprehensive income	—	—	—	1,217	66	(201)	1,082	1,411	2,493
Balances at June 30, 2003	**4,312**	**12,257**	**15,708**	**1,217**	**(372)**	**(6,283)**	**26,839**	**16,600**	**43,439**
Comprehensive income from July to December 2003	—	—	—	1,948	(265)	516	2,199	1,417	3,616
Balance at December 31, 2003	**4,312**	**12,257**	**15,708**	**3,165**	**(637)**	**(5,767)**	**29,038**	**18,017**	**47,055**
Transfer of prior year income	—	—	3,165	(3,165)	—	—	—	—	—
Dividends declared and paid	—	—	(532)	—	—	—	(532)	(283)	(815)
Capital contribution by minority interest	—	—	—	—	—	—	—	570	570
Comprehensive income	—	—	—	2,434	(46)	168	2,556	1,881	4,437
Balances at June 30, 2004	**Ps. 4,312**	**Ps. 12,257**	**Ps. 18,341**	**Ps. 2,434**	**Ps. (683)**	**Ps. (5,599)**	**Ps. 31,062**	**Ps. 20,185**	**Ps. 51,247**

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

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 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")	70%	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, Carta Blanca, Superior, Sol and XX Lager. Labatt Brewing Company Limited ("Labatt"), directly and indirectly, owns an aggregate of 30% of FEMSA Cerveza's capital stock.
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 aluminum beverage cans and tops, bottle caps, glass beverage bottles, labels, plastic cases, as well as coolers and commercial refrigeration equipment.
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 Logística, S.A. de C.V. and Subsidiaries ("FEMSA Logística")	100%	Transportation, logistics and maintenance services to FEMSA's subsidiaries and to third parties.

Note 2. Termination of the FEMSA and Interbrew Joint Venture Agreements.

On May 24, 2004, the Company entered into a series of agreements with Interbrew S.A. (“Interbrew”), Labatt and certain of their affiliates to terminate the existing arrangements among FEMSA and Interbrew. These agreements provide for payments to be made by affiliates of FEMSA in a total amount of $ 1,245. Upon completion of the transactions contemplated in the agreements:

- FEMSA will indirectly own 100% of FEMSA Cerveza;
- Interbrew will indirectly own 100% of Labatt USA LLC and Latrobe Brewing Company LLC (together, “Labatt USA”), its distribution subsidiary in the United States of America; and
- Labatt USA’s right to distribute the FEMSA Cerveza brands in the United States of America will terminate 120 days after the closing of the transactions.

The closing of these transactions is subject to certain conditions, including the availability of financing for FEMSA (if the closing has not occurred by August 31, 2004) and the consummation of the combination of Interbrew and the Brazilian brewer Companhia de Bebidas das Américas.

The transaction is expected to be financed as follows:

- $ 295 of cash on hand;
- $ 500 bridge loan to FEMSA, of which a $ 250 tranche will be denominated in U.S. dollars and the remaining $ 250 tranche will be denominated in Mexican pesos, each to be refinanced with the net proceeds of the global offering and the Mexican B Unit offering;
- $ 217 equivalent in Mexican peso-denominated *certificados bursátiles* issued by FEMSA and guaranteed by FEMSA Cerveza, of which $ 108.5 have a maturity of five years and the $ 108.5 remaining have maturity of four years;
- $ 150 equivalent in a Mexican peso-denominated unsecured term loan to FEMSA with a maturity of four years; and
- $ 83 equivalent in a Mexican peso-denominated unsecured term loan to FEMSA Cerveza with a maturity of five years.

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. 29,999. As part of the acquisition, the Company assumed Ps. 9,233 of net debt and incurred transaction costs of Ps. 394, which consist 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. 2,824, an exchange of The Coca-Cola Company’s equity interests in Panamco valued at Ps. 7,158 for new shares of Coca-Cola FEMSA, cash on hand of Ps. 2,866 and additional indebtedness of Ps. 17,548.

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 the acquisition, as a result of which the consolidated income statements and the consolidated statements of changes in financial position for the six months ended June 30, 2004 are not comparable with those for the six months ended June 30, 2003.

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 ("U.S. GAAP"), as further explained in Note 27. A reconciliation from Mexican GAAP to U.S. GAAP is included in Note 28.

The consolidated financial statements are stated in millions of Mexican pesos ("Ps."). The translations of Mexican pesos into U.S. 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.

Note 5. Foreign Subsidiary Incorporation.

The accounting records of the 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 the 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 cost 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 or subsidiary 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 on 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.

The Company has not designated any investment in a foreign subsidiary as an economic hedge.

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 the inflation factors;
- Including in stockholders' equity the cumulative effect of holding non-monetary assets, which is the net difference between changes in the replacement cost of non-monetary assets and adjustments based upon the inflation factors; and
- Including in the cost of financing the purchasing power gain or loss from holding monetary items.

The Company restates its consolidated financial statements in currency of constant purchasing power by applying the 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 (see Note 18).

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 the 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 of the month in which 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 includes bottles and cases in inventories. Breakage is charged as an expense as incurred. For the six months ended June 30, 2004 and 2003, breakage expense amounted to Ps. 76 and Ps. 90, respectively.

Coca-Cola FEMSA includes bottles and cases in property, plant and equipment. For financial reporting purposes, breakage is recorded as an expense as it is incurred. 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 is similar to the depreciation calculated on an estimated useful life of approximately five years for returnable glass bottles and one year for returnable plastic bottles. For the six months ended June 30, 2004 and 2003, breakage expense amounted to Ps. 196 and Ps. 83, respectively. Bottles and cases that have been placed in the hands of customers 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 are expensed when placed in the hands of customers.

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 and which does not have an observable market value, are recorded at acquisition cost and restated based upon the inflation factors of the country of origin. Investments in affiliated companies in which the Company does not have significant influence and which does have an observable market value are adjusted to market value, with such adjustments reflected in earnings.

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 the inflation factors. Imported equipment is restated by applying the 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 determines 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
Information technology equipment	3-4

h) Other Assets:

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

- 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 in accordance with the terms of such agreements, based on the volume sold by the customer. The term of these agreements is between three and four years. During the six months ended June 30, 2004 and 2003 the amortization reducing net sales amounted to Ps. 536 and Ps. 531, respectively; and
- Leasehold improvements, which are restated by applying the inflation factors, are amortized using the straight-line method, in accordance with the terms of the lease contracts.

i) Intangible Assets and Goodwill:

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 combinations. 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 trademark and beer products. 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 the inflation factors and are amortized on a straight-line basis in accordance with the terms of the lease contract; and
- Enterprise resource planning (ERP) system implementation costs, which are incurred during the development stage and are capitalized in accordance with C-8. Such amounts are restated applying the 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 beverages 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 the inflation factors of the country of origin and using the exchange rate in effect at the date of the most recent balance sheet presented; and
- FEMSA Cerveza distribution rights, which represent the payments made to concessionaries in the acquisition of the franchise previously granted, and are restated based on the inflation factors.

Goodwill is the difference between the price paid and the fair value of the shares and/or net assets acquired that was not assigned directly to an intangible asset. Goodwill is recorded in the functional currency of the subsidiary in which the investment was made and is restated by applying the inflation factor 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 of the Value of Long-Lived Assets and Their Disposal) (“C-15”), the Company reviews the carrying value of its goodwill and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In order to determine whether impairment exists, management compares estimated future discounted cash flows to be generated by those assets with their carrying value. If such assets are considered to be impaired, the impairment charge to be 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 resources received for advertising and promotional incentives are included as a reduction of selling expenses. The net expenses incurred were Ps. 662 and Ps. 471 during the six months ended June 30, 2004 and 2003, respectively. The investment in refrigeration equipment, net of The Coca-Cola Company’s participation, is recorded in property, plant and equipment.

l) Labor Liabilities:

Labor liabilities include obligations for pension and retirement plan, seniority premiums and postretirement 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 increase in labor liabilities of the year is charged to expense in the income statement.

Unamortized prior service costs are recorded as expenses in the income statement 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 postretirement medical services is 20 years, both since 1996.

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

Severance indemnities are charged to expenses on the date that they are incurred. 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 six months ended June 30, 2004 and 2003, these payments amounted to Ps. 51 and Ps. 47, respectively.

m) Revenue Recognition:

Revenue is recognized upon shipment of goods to customers or upon delivery to the customer and the customer has taken ownership of the goods. Net sales reflect units delivered at selling list prices reduced by promotion allowances and discounts and the amortization of agreements with customers for the right to sell and promote the Company’s products.

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 six months ended June 30, 2004 and 2003, these distribution costs amounted to Ps. 3,893 and Ps. 2,771, respectively;
- Sales: labor costs (salaries and other benefits) and sales commission 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 taxes 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 about 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 they 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 results of operations 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 asset returns on a consolidated basis, which includes the proportional taxable income or loss of its Mexican subsidiaries, which is limited to 60% of the stockholders’ participation. The provisions for income taxes of the foreign countries have been determined on the basis of the taxable income of each individual company and not on a consolidated basis.

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 currency are recorded in local currency 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 is considered to be an economic hedge (see Note 5).

Gain (Loss) on Monetary Position:
This is the result of the effects of inflation on monetary items. The gain (loss) on monetary position is computed by applying the 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 is 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 contracts 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. If the instrument is used to manage the risks related with the financing operations, the effect is recorded in interest expense or in the foreign exchange loss (gain), depending on the related contract.

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 should be 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 should be 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 the inflation factors to non-monetary assets such as inventories and fixed assets, and their effect on the income statement when the assets are consumed or depreciated.

s) Comprehensive Income:

Comprehensive income is comprised of the net income for the period and other comprehensive income items such as the translation adjustment and the result of holding non-monetary assets and is presented in the consolidated statement of changes in stockholders' equity.

t) Provisions:

Provisions are recognized for obligations that result from a past event, that are probable to 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.

Note 7. Accounts Receivable.

	June 30, 2004	**December 31, 2003**
Trade	**Ps. 3,512**	Ps. 3,259
Allowance for doubtful accounts	**(478)**	(374)
Notes receivable	**460**	638
The Coca-Cola Company	**289**	170
Travel advances to employees	**44**	29
Loans to employees	**30**	30
Insurance claims	**30**	38
Rent of warehouses	**8**	10
Other	**454**	402
	Ps. 4,349	Ps. 4,202

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

	June 30, 2004	December 31, 2003
Initial balance	**Ps. 374**	Ps. 298
Acquisition of Panamco	**—**	63
Provision for the period	**215**	151
Cancellation of uncollectible accounts	**(105)**	(126)
Restatement of the initial balance	**(6)**	(12)
Ending balance	**Ps. 478**	Ps. 374

Note 8. Inventories.

	June 30, 2004	December 31, 2003
Raw materials	**Ps. 2,521**	Ps. 2,615
Finished products	**2,286**	2,379
Bottles and cases of FEMSA Cerveza	**1,249**	1,282
Spare parts	**600**	404
Advances to suppliers	**317**	338
Work in process	**181**	183
Advertising and promotional materials	**19**	25
Allowance for obsolescence	**(187)**	(206)
	Ps. 6,986	Ps. 7,020

Note 9. Prepaid Expenses.

	June 30, 2004	December 31, 2003
Advertising and promotional expenses	**Ps. 434**	Ps. 398
Agreements with customers	**97**	133
Leasing	**63**	46
Insurance	**41**	13
Other	**107**	50
	Ps. 742	Ps. 640

The advertising and promotional expenses recorded in the income statement for the six months ended June 30, 2004 and 2003 amounted to Ps. 744 and Ps. 299, respectively.

Note 10. Investments in Shares.

		June 30, 2004	December 31, 2003
Company			
FEMSA Cerveza:			
Labatt USA	30.00%	**Ps. 160**	Ps. 165
Associated companies of FEMSA Cerveza	Various	**132**	117
Río Blanco Trust (waste water treatment plant)	33.71%	**124**	118
Other	Various	**26**	26
Coca-Cola FEMSA:			
Molson, Inc. (“Molson”)	0.74%	**217**	232
Industria Envasadora de Querétaro, S.A. de C.V. (“IEQSA”)	33.68%	**124**	126
Complejo Industrial Can S.A. (“CICAN”)	48.10%	**39**	54
Beta San Miguel, S.A. de C.V. (“Beta San Miguel”)	2.54%	**30**	31
Tapón Corona de Colombia, S.A. (“Tapón Corona”)	40.00%	**22**	22
Other	Various	**40**	10
Other investments	Various	**12**	49
		Ps. 926	Ps. 950

The investment in Molson shares is recorded at its market value of Ps. 235 as of June 30, 2004, and is presented net of the fair value of the related equity forward contract of Ps. 18 (see Note 19 b). The Molson stock was subject to a two-year contractual restriction on sale that expired on March 19, 2004.

Note 11. Property, Plant and Equipment.

	June 30, 2004	December 31, 2003
Land	**Ps. 5,427**	Ps. 5,423
Buildings, machinery and equipment	**62,989**	62,227
Accumulated depreciation	**(28,956)**	(27,872)
Construction in progress	**1,853**	1,769
Bottles and cases of Coca-Cola FEMSA	**946**	995
Assets stated at realizable value	**628**	677
	Ps. 42,887	Ps. 43,219

The Company has identified fixed assets 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:

	June 30, 2004	December 31, 2003
FEMSA and others	**Ps. 314**	Ps. 332
FEMSA Cerveza	**277**	304
FEMSA Empaques	**37**	41
	Ps. 628	Ps. 677

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. Other Assets.

	June 30, 2004	December 31, 2003
Agreements with customers	**Ps. 2,592**	Ps. 2,538
Leasehold improvements	**1,816**	1,641
Long-term accounts receivable	**611**	702
Additional labor liabilities (see Note 16)	**521**	532
Long-term prepaid advertising	**197**	177
Financing issuance costs	**99**	177
Recoverable taxes (see Note 24 b)	—	219
Other	**609**	445
	Ps. 6,445	Ps. 6,431

Note 13. Intangible Assets and Goodwill.

	June 30, 2004	December 31, 2003
Unamortized Intangible Assets		
Coca-Cola FEMSA:		
Rights to produce and distribute Coca-Cola trademark products:		
Territories of Panamco (see Note 3)	**Ps. 34,279**	Ps. 33,965
Buenos Aires, Argentina	**203**	193
Tapachula, Chiapas	**113**	113
FEMSA Cerveza:		
Distribution rights	**122**	122
FEMSA:		
Mundet trademark	**140**	140
Amortized Intangible Assets		
Goodwill:		
FEMSA's minority interest acquisition	**188**	195
Other Intangible assets:		
Cost of systems implementation (ERP)	**563**	578
Start-up expenses	**162**	159
	Ps. 35,770	Ps. 35,465

The estimated goodwill amortization related to FEMSA's minority interest acquisition is Ps. 14 per year, and the changes in the carrying amount of goodwill are as follows:

	June 30, 2004	December 31, 2003
Original investment	**Ps. 268**	Ps. 268
Initial accumulated amortization	**(73)**	(59)
Amortization for the period	**(7)**	(14)
Accumulated amortization at the end of the period	**(80)**	(73)
Ending balance	**Ps. 188**	Ps. 195

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:

	June 30, 2004	December 31, 2003
Balances		
Assets (accounts receivable)	**Ps. 921**	Ps. 784
Liabilities (suppliers and other liabilities)	**549**	789
Long-term debt with BBVA Bancomer, S.A.	**5,898**	4,120

	June 30,	
	2004	2003
Transactions		
Income:		
Sales to and other revenues from affiliated Companies of FEMSA Cerveza	**Ps. 1,021**	Ps. 866
Sales of cans to IEQSA	**240**	182
Interest income[1]	**14**	34
Expenses:		
Purchases of concentrate from The Coca-Cola Company	**3,481**	2,104
Purchases of sugar from Beta San Miguel	**453**	195
Purchases from Grupo Industrial BIMBO, S.A. de C.V.[1]	**341**	311
Purchases of canned products from IEQSA and CICAN	**152**	29
Purchases of crown cap from Tapón Corona	**77**	22
Insurance premiums[1]	**107**	85
Services paid to Labatt	**62**	64
Interest expense[1]	**65**	6
Other	**68**	77

(1) Members of our board of directors are also members of the board of directors of the counterparties to these transactions.

Note 15. Balances and Transactions in Foreign Currency.

Assets, liabilities and transactions denominated in a foreign currency, other than the functional currency of the reporting unit, translated into U.S. dollars are as follows:

		Applicable Exchange Rate [1]	Short-Term	Long-Term	Total
Balances					
June 30, 2004:	**Assets**	**11.512**	**$ 396**	**$ —**	**$ 396**
	Liabilities		**474**	**1,041**	**1,515**
December 31, 2003:	Assets	11.235	$ 149	$ —	$ 149
	Liabilities		535	1,394	1,929

(1) Mexican pesos per one U.S. dollar.

	June 30,	
	2004	2003
Transactions		
Revenues	**$ 152**	$ 111
Expenses:		
Purchases of raw materials	**142**	91
Technical assistance fees	**7**	8
Interest and other	**149**	94
	$ 298	$ 193

As of July 19, 2004, the issue date of these consolidated financial statements, the exchange rate was 11.434 Mexican pesos per one U.S. dollar, and the foreign currency position was similar to that as of June 30, 2004.

Note 16. Labor Liabilities.

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

	Annual discount rate	Salary increase	Return on assets
Mexico	6.0%	2.0%	6.0%
Guatemala	4.5%	1.5%	— (1)
Nicaragua	4.5%	1.5%	— (1)
Costa Rica	4.5%	1.5%	4.5%
Colombia	4.5%	1.5%	— (1)
Brazil	4.5%	1.5%	4.5%
Measurement date	November 2003		

(1) No fund established for the payment of postretirement obligations.

The bases for the determination of the long-term rate of return used is supported through a historical analysis of average returns in real terms of the last 30 years of the *Certificados de Tesorería del Gobierno Federal* (Federal Government Treasury Certificates) and the expectations of long-term returns of the actual investments of the Company. Panama, Venezuela and Argentina operations do not have any postretirement plans.

The balances of the liabilities and the trust assets as well as the expenses for the period are as follows:

	June 30, 2004	December 31, 2003
Pension and retirement plans:		
Vested benefit obligation	**Ps. 1,668**	Ps. 1,682
Non-vested benefit obligation	**1,319**	1,404
Accumulated benefit obligation	**2,987**	3,086
Excess of projected benefit obligation over accumulated benefit obligation	**392**	269
Projected benefit obligation	**3,379**	3,355
Pension plan funds at fair value	**(1,673)**	(1,693)
Unfunded projected benefit obligation	**1,706**	1,662
Unrecognized net transition obligation services	**(359)**	(370)
Unrecognized actuarial net gain	**(226)**	(240)
	1,121	1,052
Additional labor liability	**496**	507
Total	**Ps. 1,617**	Ps. 1,559

	June 30, 2004	December 31, 2003
Seniority premiums:		
Vested benefit obligation	**Ps. 68**	Ps. 69
Non-vested benefit obligation	**60**	64
Accumulated benefit obligation	**128**	133
Excess of projected benefit obligation over accumulated benefit obligation	**16**	16
Unfunded projected benefit obligation	**144**	149
Unrecognized net transition obligation services	**(14)**	(15)
	130	134
Additional labor liability	**25**	25
Total	**Ps. 155**	Ps. 159
Postretirement medical services:		
Vested benefit obligation	**Ps. 211**	Ps. 202
Non-vested benefit obligation	**236**	225
Accumulated benefit obligation	**447**	427
Medical services funds at fair value	**(26)**	(26)
Unfunded accumulated benefit obligation	**421**	401
Unrecognized net transition obligation	**(58)**	(61)
Unrecognized actuarial net loss	**(182)**	(184)
Total	**Ps. 181**	Ps. 156
Total Labor Liabilities	**Ps. 1,953**	Ps. 1,874

	June 30,	
	2004	2003
Expense for the period		
Pension plan	**Ps. 106**	Ps. 74
Seniority premiums	**14**	11
Postretirement medical services	**25**	21
	Ps. 145	Ps. 106

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 (see Note 12).

The trust assets consist of fixed income and variable funds, valued at market, the pension plan assets are invested in the following financial instruments:

	June 30, 2004	December 31, 2003
Fixed Rate:		
Traded securities	27%	34%
Bank instruments	11%	11%
Federal Government instruments	31%	30%
Variable Rate:		
Publicly traded shares in BMV	31%	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 being 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 five largest international companies that manage long-term funds.

During 2003, the contributions to the pension plan and postretirement medical services funds amounted to Ps. 83 and the Company estimates that the contributions during 2004 will reach Ps. 90.

The integral result of financing includes the interest cost related to labor liabilities, net of the return on plan assets. This amounted to Ps. 60 and Ps. 40 for the six months ended June 30, 2004 and 2003, respectively.

Note 17. Bonus Program.

The bonus program for executive officers is based upon the accomplishment of certain goals, established annually by management. The bonuses are recorded in the results of operations based on the accomplishment of such goals and are paid in cash the following year.

The Company provides a compensation plan for certain key executives, which consists of the grant of an annual bonus in FEMSA stock or options, based on each executive’s responsibilities within the organization and each executive’s performance. The executives will have access to the assigned stock or options in 20% increments in each of the five years following the granting of the bonus, beginning one year after they are granted. For the executive officers of Coca-Cola FEMSA, the annual bonus consists of 50% in stock or stock options of FEMSA and the rest in stock or stock options of Coca-Cola FEMSA.

Note 18. Bank Loans and Notes Payable.

Current bank loans and notes payable outstanding at June 30, 2004 and December 31, 2003, principally consist of revolving loans denominated in Mexican pesos and U.S. dollars. The weighted average annual interest rate as of June 30, 2004 for debt denominated in Mexican pesos and U.S. dollars was 3.0% and 2.4%, respectively, and as of December 31, 2003 for debt denominated in Mexican pesos and U.S. dollars was 6.2% and 2.5%, respectively. Long-term bank loans and notes payable of the Company are as follows:

	% Interest Rate [1]	June 30, 2004	December 31, 2003
Fixed interest rate			
U.S. Dollars:			
Yankee bond	7.92	**Ps. 5,803**	Ps. 5,773
Bank loans	4.31	**1,685**	7,120
Private placement	9.40	**1,151**	1,142
Syndicated loan	3.60	**828**	1,552
Capital leases	5.41	**189**	197
Mexican Pesos:			
Notes	9.17	**7,250**	5,336
Bank loans	8.58	**5,444**	2,541
Units of Investment (UDIs)	8.65	**1,415**	1,441
Variable interest rate			
U.S. Dollars:			
Bank loans	2.44	**3,190**	705
Syndicated loan	2.34	**575**	874
Mortgage loan	3.69	**61**	69
Capital leases	10.04	**30**	33
Mexican Pesos:			
Bank loans	7.37	**3,405**	4,321
Notes	7.49	**2,750**	4,827
Colombian Pesos:			
Notes	10.30	**618**	651
Long-Term Debt		**34,394**	36,582
Current maturities of long-term debt		**(2,620)**	(2,639)
		Ps.31,774	Ps. 33,943

[1] Weighted average rate, including the effect of interest rate swaps (see Note 19 c)

Maturities of long-term debt as of June 30, 2004 are as follows:

Current maturities of long-term debt	Ps. 2,620
2005	3,947
2006	6,361
2007	4,390
2008	5,246
2009 and thereafter	11,830
	Ps.34,394

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 June 30, 2004, Coca-Cola FEMSA has restricted cash in the amount of approximately Ps. 495, which guarantees the payment of some of the current bank loans.

On June 29, 2004, Coca-Cola FEMSA obtained a long-term debt bank loan to prepay some of its existing debt. The prepayment of Ps. 1,497 was made on July 2, 2004, although in accordance with Mexican GAAP the Company elected to record the prepayment as of June 30, 2004.

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. The discount rate is estimated using rates currently offered for debt of similar amounts and maturities. The fair value of long-term debt is based on quoted market prices.

	June 30, 2004	December 31, 2003
Carrying value	**Ps.31,774**	Ps. 33,943
Fair value	**31,801**	34,800

b) Equity Forward:

A subsidiary of Coca-Cola FEMSA had an equity forward purchase contract, which expired in June 2004, to fix the price of its investment in Molson shares (see Note 10). This contract generated a loss of Ps. 35, which was recognized in the Panamco acquisition. On June 18, 2004, this subsidiary entered into a new forward contract that expires in September 2004 with respect to the same Molson shares, with a notional amount of Ps. 236. As of June 30, 2004, its fair value resulted in the recognition of a loss of Ps. 18.

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, the company sold some put options as a complement to the swap agreements, for which a premium was received. The net effect is included in interest expense and amounted to Ps. 97 and Ps. 23, for the six months ended June 30, 2004 and 2003, 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 June 30, 2004, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value
2004	Ps .288	Ps.—
2006	1,451	(67)
2007	3,500	77
2008	5,386	142
2010	750	25
2011	1,500	65

d) Forward Agreements to Purchase Foreign currency:

The company has forward agreements for the purchase of euros with a notional amount of 8 million euros, for the purpose of hedging the exchange risk between the U.S. dollar and the euro for the purchase of equipment. The fair value is estimated based on the quoted market exchange rate to terminate the contracts at the date of the most recent balance sheet presented, which represents a gain of Ps. 11. The net effect of the contracts that were paid during the six months ended June 30, 2004 was an exchange gain of Ps. 4.

Additionally, the Company has contracts to guarantee the purchase of U.S. dollars with a notional amount of $ 940 in order to fix the amount of pesos that will be required to acquire the 30% of the stock of FEMSA Cerveza from Interbrew, given that a significant portion of the funds that will be obtained for this transaction will be denominated in Mexican pesos. The fair value is estimated based on the quoted market exchange rate to terminate the contracts at the date of the most recent balance sheet presented, which as of June 30, 2004, represents a gain of Ps. 87. The net effect of the contracts that were paid during the six months ended June 30, 2004 was an exchange gain of Ps. 15.

e) Commodity Price Contracts:

The Company entered into various derivative contracts to hedge the cost of certain raw materials. The result of the commodity price contracts was a gain of Ps. 39 and a loss of Ps. 25 during the six months ended June 30, 2004 and 2003, 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 reporting date. As of June 30, 2004, the Company has various derivative instrument contracts with maturity dates in 2004 and 2005, notional amounts of Ps. 630 and a fair value gain of Ps. 49.

Note 20. Minority Interest in Consolidated Subsidiaries.

	June 30, 2004	December 31, 2003
FEMSA Cerveza	**Ps. 5,627**	Ps. 5,321
Coca-Cola FEMSA	**14,558**	12,696
	Ps. 20,185	Ps. 18,017

Note 21. Stockholders' Equity.

As of June 30, 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 June 30, 2004, FEMSA's capital stock was 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. 1,663	Ps. 4,312
Additional paid-in capital	7,577	4,680	12,257
Retained earnings from prior years	17,727	614	18,341
Net income	2,416	18	2,434

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 June 30, 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 the "Cuenta de Utilidad Fiscal Neta Reinvertida" ("CUFINRE").

Dividends paid in excess of CUFIN and CUFINRE will be subject to income taxes 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 June 30, 2004, the balances of CUFIN and CUFINRE amounted to Ps. 12,374 and Ps. 2,319, respectively, and the deferred tax payments were Ps. 178.

At an ordinary stockholder meeting of the Company held on March 11, 2004, the stockholders approved dividends of 0.089500 pesos (nominal value) per series "B" share and 0.111875 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. 521 that was paid in May 2004. The corresponding payment to the minority interest of Ps. 283 is presented as a reduction of minority interest in the statement of changes in stockholders' equity.

On June 8, 2004, Winsa Company LLP acquired a 16.89% voting equity interest in an indirect subsidiary of Coca-Cola FEMSA that is the holding company for its subsidiaries in Brazil for Ps. 570.

At an ordinary stockholder meeting of FEMSA Cerveza held on March 11, 2004, the stockholders approved a dividend of Ps. 309, to be paid starting in July 2004. On May 11, 2004, through a stockholders' resolution in lieu of a meeting, the stockholders revoked the dividend.

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 June 30, 2004 and 2003:

	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 because of the difference between purchase 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	38.8%	5-8
Brazil	34.0%	Indefinite
Argentina	35.0%	5

Until 2002, the Mexican statutory income tax rate was 35%. Beginning 2003, the rate has been reduced one percentage point per year through 2005, when the rate will be 32%.

In Guatemala tax loss carryforwards may only be applied by companies of recent creation (not applicable to the Company). Colombian 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 losses carryforwards in any year, however, is limited to 30% of the taxable income generated in such year.

b) Tax on Assets:

Operations in Mexico, Guatemala, Nicaragua, Venezuela, Colombia and Argentina are subject to a minimum tax, which is based primarily on a percentage of 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.

In Guatemala, until December 31, 2003 an alternative minimum tax ("IEMA") existed equivalent to the lower of 2.25% of the prior year's revenues or 3.5% of total assets as of the beginning of the year, which was paid only to the extent that it exceeded the income taxes of the year. If in any year a payment of IEMA was required, this amount was credited against the excess of income taxes over the IEMA of the following year. On February 2, 2004, this tax was declared unconstitutional. At this time it is not known what favorable effect this could have on the IEMA payments made by the Company in previous years.

In Nicaragua the tax on assets results from applying a 1% rate to total tax assets as of the end of the year, and it is paid only to the extent that it exceeds the income taxes of the year. If in any year a tax on assets payment is required, this tax is definitive and the amount may not be credited against the excess of income taxes in future years.

In Venezuela the tax on assets results from applying a 1% rate to the net average amount of non-monetary assets adjusted for inflation and monetary assets devalued for inflation. 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 may be credited against the excess of income taxes over the tax on assets to the following three years.

In Colombia the tax on assets results from applying a 6% rate to net tax assets as of the beginning of the year. This tax is paid only to the extent that it exceeds the income taxes of the year. If a tax on assets payment was required in 2001 or 2002, the amount may be credited against the excess of income taxes over the tax on assets in the following three years. If a tax on assets payment is required subsequent to 2002, the amount may be credited against the excess of income taxes over the tax on assets in the following five years.

In Argentina there is a Tax on Minimum Presumptive Income ("TMPI") that results from applying 1% to certain assets, and is paid only to the extent that it exceeds the income taxes of the year. If in any year a payment is required, this amount may be credited against the excess of income taxes over the TMPI in the following 10 years.

c) Employee Profit Sharing:

Employee profit sharing is applicable to Mexico and Venezuela. In Mexico the 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 the 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 Taxes and Employee Profit Sharing:

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

	June 30, 2004	December 31, 2003
Deferred Income Taxes		
Allowance for doubtful accounts	**Ps. (172)**	Ps. (152)
Inventories	**1,756**	1,873
Prepaid expenses	**104**	129
Property, plant and equipment	**4,900**	4,564
Investments in shares	**15**	178
Intangible and other assets	**(430)**	(203)
Pension plan	**(270)**	(266)
Seniority premiums	**(44)**	(44)
Postretirement medical services	**(60)**	(52)
Recoverable tax on assets	**(309)**	(80)
Tax loss carryforwards	**(866)**	(430)
Contingencies reserve	**(504)**	(831)
Deferred provisions	**(596)**	(546)
Other reserves	**(160)**	(218)
	Ps. 3,364	Ps. 3,922

The changes in the balance of the deferred income taxes are as follows:

	June 30, 2004	December 31, 2003
Initial balance	**Ps. 3,922**	Ps. 4,247
Acquisition balance of Panamco	**—**	(949)
Gain on monetary position	**13**	27
Provision for the period	**(417)**	539
Change in the statutory income tax rate	**(37)**	(69)
Result of holding non-monetary assets	**(117)**	127
Ending balance	**Ps. 3,364**	Ps. 3,922

At June 30, 2004, there are no significant non-recurring temporary differences between the accounting income for the year and the bases for Mexican employee profit sharing, therefore the Company did not record a provision for deferred employee profit sharing.

e) Income Tax, Tax on Assets and Employee Profit Sharing Provisions:

	June 30,	
	2004	2003
Current income taxes	**Ps. 2,103**	Ps. 1,157
Tax on assets	**37**	38
Deferred income taxes	**(417)**	87
Change in the statutory income tax rate	**(37)**	(111)
	1,686	1,171
Employee profit sharing	**234**	158
	Ps. 1,920	Ps. 1,329

The Company's consolidated effective income tax rate as of June 30, 2004 and 2003 differs from the statutory income tax rate, as a result of certain permanent differences such as non-deductible expenses, differences between book and tax inflationary effects and the effect of the change in the statutory income tax rate in Mexico.

f) Tax Loss Carryforwards and Recoverable Tax on Assets:

As of June 30, 2004, 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
2004	Ps. 1	Ps. 115
2005	429	44
2006	—	44
2007	1	46
2008	25	24
2009	20	1
2010	2,006	5
2011	33	11
2012	104	14
2013 and thereafter	1,400	30
	Ps. 4,019	Ps. 334

Due to the uncertainty of the realization of tax loss carryforwards for an amount of Ps. 1,298 a valuation allowance has been provided.

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 dietetic soft drinks and mineral water, obtaining a favorable resolution for these claims. Based on the favorable resolution, the Company has recorded a receivable for refundable taxes of Ps. 251.
- 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. 60 was recorded in the income statement for June 30, 2004.

b) Unsettled Lawsuits:

- 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. However, in June 2004, the Company decided to cancel such receivable and record the deferred tax asset derived from the recoverable tax on assets in the amount of Ps. 218.

- In 2000, the Comisión Federal de Competencia en Mexico (the Mexican Antitrust Commission), initiated an investigation of the commercial practices of Coca-Cola bottlers. In 2002, through a final resolution, the Commission held that Coca-Cola bottlers engaged in monopolistic practices. The Company, along with other Coca-Cola bottlers, appealed the resolution, and its legal counsel believe that it is probable that the Company will prevail and obtain a permanent injunction against the Commission.
- In June 2004, a Costa Rican subsidiary was required to pay approximately $ 12 with respect to taxes on the 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. Management does not believe these taxes will have a material adverse effect on its financial condition or results of operations.
- In September 2002, a competing bottler filed a lawsuit against the Company's Panamanian subsidiary for approximately $ 98, alleging the use of monopolistic practices. Management does not believe that the resolution of this matter will have a material adverse effect on its financial condition or results of operations.
- In 1999, the Company's Venezuelan subsidiaries received notice of certain tax claims asserted by the Venezuelan taxing authorities. These claims currently total approximately $ 23. The Company has certain rights to indemnification from the original owner and therefore does not believe that the ultimate disposition of these cases will have a material adverse effect on its consolidated financial position or results of operations.
- A Venezuelan subsidiary has been the subject of lawsuits filed by former distributors for a total amount of approximately $ 31. The Company believes, based on decisions rendered by the Supreme Court in similar cases, and an analysis of each case, that these claims are without merit.
- In 2001, a labor union and several individuals from the Republic of Colombia filed a lawsuit in the U.S. District Court for the Southern District of Florida against the Company and The Coca-Cola Company. In the complaint, the plaintiffs alleged that the Company 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.
- The Company also has various other loss contingencies, for which reserves have been recorded in those cases where the Company believes the result of an unfavorable resolution is probable. The details regarding these contingencies has not been disclosed, since the Company believes that to do so would adversely impact its legal position.
- 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 proceedings will not have a material adverse effect on its consolidated financial position or result of operations.

c) Commitments:

As of June 30, 2004, the Company has minimum operating lease commitments as follows:

- In U.S. dollars, for the leasing of production machinery and equipment, distribution equipment and computing equipment; and
- In Mexican pesos, for the leasing of land for the operations of FEMSA Comercio.

Contract maturities are variable and expire as follows:

2004	**$ 22**	**Ps. 486**
2005	**42**	**511**
2006	**36**	**503**
2007	**29**	**490**
2008	**21**	**478**
2009	**17**	**450**
2010	**16**	**437**
2011 to 2020	**—**	**3,254**

Rental expense charged against earnings amounted to approximately Ps. 542 and Ps. 318 for the six months ended June 30, 2004 and 2003, respectively.

Note 25. Extraordinary Items.

The Company recognized a net extraordinary gain relating to the following items:

- On 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, in the amount of Ps. 1,258.
- In April 2004, the Supreme Court of Justice in Mexico issued specific rules for the 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 has 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 in prior years. An estimated amount for fines and adjustments for inflation was recognized as an extraordinary loss in the amount of Ps. 83.

Note 26. Information by Segment.

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

a) By Business Unit

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. In order to assure comparability, the results of operations of these "Six" stores were removed from FEMSA Cerveza and included in FEMSA Comercio for the first six months of 2003. This change does not impact FEMSA's consolidated results.

	June 30,	
	2004	**2003**
Total Revenues		
Coca-Cola FEMSA	**Ps.21,642**	Ps.13,828
FEMSA Cerveza	**11,024**	10,444
FEMSA Empaques	**3,885**	3,559
FEMSA Comercio	**10,128**	8,307
Other	**1,666**	2,726
Consolidation adjustments	**(4,633)**	(5,425)
	43,712	33,439
Income from Operations[(1)]		
Coca-Cola FEMSA	**3,331**	2,877
FEMSA Cerveza [(1)]	**1,904**	1,590
FEMSA Empaques	**513**	466
FEMSA Comercio	**346**	305
Other	**365**	1,593
Consolidation adjustments	**(242)**	(1,554)
	6,217	5,277
Depreciation[(2)]		
Coca-Cola FEMSA	**909**	569
FEMSA Cerveza	**581**	589
FEMSA Empaques	**147**	131
FEMSA Comercio	**114**	63
Other	**17**	21
	1,768	1,373
Amortization and Other Non-Cash Charges [(3)]		
Coca-Cola FEMSA	**299**	188
FEMSA Cerveza	**828**	752
FEMSA Empaques	**48**	44
FEMSA Comercio	**85**	65
Other	**15**	34
	1,275	1,083
Impairment of Long-Lived Assets		
FEMSA Cerveza	**105**	419
FEMSA Empaques	**4**	—
	109	419

(1) Includes equity method of affiliated companies, a gain of Ps. 9 and a loss of Ps. 21, respectively

(2) Includes breakage of bottles

(3) Excludes the non-cash charges relative to current assets and liabilities

	June 30,	
	2004	**2003**
Interest Expense		
Coca-Cola FEMSA	**1,214**	494
FEMSA Cerveza	**264**	274
FEMSA Empaques	**125**	112
FEMSA Comercio	**99**	70
Other	**15**	64
Consolidation adjustments	**(49)**	(53)
	1,668	961
Interest Income		
Coca-Cola FEMSA	**Ps. 75**	Ps. 133
FEMSA Cerveza	**55**	136
FEMSA Empaques	**7**	7
FEMSA Comercio	**23**	31
Other	**69**	89
Consolidation adjustments	**(49)**	(53)
	180	343
Income Tax and Tax on Assets		
Coca-Cola FEMSA	**826**	455
FEMSA Cerveza	**542**	373
FEMSA Empaques	**137**	145
FEMSA Comercio	**111**	139
Other	**70**	59
	1,686	1,171
Capital Expenditures		
Coca-Cola FEMSA	**704**	893
FEMSA Cerveza	**1,355**	1,489
FEMSA Empaques	**78**	258
FEMSA Comercio	**736**	476
Other	**11**	13
	2,884	3,129

	June 30, 2004	December 31, 2003
Long-term Assets		
Coca-Cola FEMSA	**Ps. 54,451**	Ps. 54,554
FEMSA Cerveza	**21,386**	21,250
FEMSA Empaques	**4,331**	4,499
FEMSA Comercio	**4,467**	3,933
Other	**5,752**	5,688
Consolidation adjustments	**(4,359)**	(3,859)
	86,028	86,065
Total Assets		
Coca-Cola FEMSA	**62,277**	62,859
FEMSA Cerveza	**30,541**	29,407
FEMSA Empaques	**6,609**	7,284
FEMSA Comercio	**6,685**	6,237
Other	**8,277**	7,404
Consolidation adjustments	**(7,006)**	(6,703)
	107,383	106,488

b) By Geographic Area

	June 30,	
	2004	**2003**
Total Revenues		
Mexico	**Ps. 35,110**	Ps. 30,013
Argentina	**1,176**	995
Brazil	**2,029**	613
Venezuela	**2,160**	636
Colombia	**1,761**	626
Central America [(1)]	**1,749**	556
Consolidation adjustments	**(273)**	—
	43,712	33,439
Capital Expenditures		
Mexico	**2,627**	2,798
Argentina	**14**	27
Brazil	**99**	8
Venezuela	**24**	225
Colombia	**16**	39
Central America [(1)]	**104**	32
	2,884	3,129

	June 30, 2004	December 31, 2003
Long-term Assets		
Mexico	**Ps. 79,055**	Ps. 78,391
Argentina	**1,242**	1,284
Brazil	**3,365**	3,427
Venezuela	**3,017**	3,145
Colombia	**5,350**	5,149
Central America [(1)]	**5,071**	5,041
Consolidation adjustments	**(11,072)**	(10,372)
	86,028	86,065
Total Assets		
Mexico	**98,322**	97,274
Argentina	**1,711**	1,696
Brazil	**4,116**	4,482
Venezuela	**4,123**	3,943
Colombia	**7,149**	7,093
Central America [(1)]	**5,877**	5,854
Consolidation adjustments	**(13,915)**	(13,854)
	107,383	106,488

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

Note 27. Differences Between Mexican GAAP and U.S. GAAP.

The consolidated financial statements of the Company are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. A reconciliation of the reported majority net income, majority stockholders' equity and majority comprehensive income to U.S. GAAP is presented in Note 28. It should be noted that this reconciliation to U.S. GAAP does not include the reversal of the restatement of the financial statements as required by Bulletin B-10, "Reconocimiento de los Efectos de Inflación en la Información Financiera" (Recognition of the Effects of Inflation in the Financial Information), of Mexican GAAP.

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

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

a) Restatement of Prior Year Financial Statements:

As explained in Note 6 a), in accordance with Mexican GAAP, the financial statements for Mexican subsidiaries for prior years was restated using the inflation factors, and for foreign subsidiaries and affiliated companies for prior years was restated using the inflation rate of the country in which the foreign subsidiary or affiliated company is located, then translated to Mexican pesos using the exchange rate in effect at the date of the most recent balance sheet presented.

Under U.S. GAAP, the Company applies the regulations of the Securities and Exchange Commission of the United States of America ("SEC"), which require that prior year financial statements be restated in constant units of the reporting currency, in this case the Mexican peso, which requires the restatement of such prior year amounts using the inflation factors.

Additionally, all other U.S. GAAP adjustments for prior years have been restated based upon the SEC methodology.

b) Classification Differences:

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

- As explained in Note 6 c), under Mexican GAAP advances to suppliers are recorded as inventories. Under U.S. 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 U.S. 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 U.S. GAAP purposes, such promotional costs are expensed as incurred.

d) Start-up Expenses:

As explained in Note 6 i), under Mexican GAAP, start-up expenses are capitalized and are amortized at the start of operations using the straight-line method. Under U.S. GAAP, these expenses must be recorded in the income statement as incurred.

e) Intangible Assets and Goodwill:

As mentioned in Note 6 i), under Mexican GAAP, until January 1, 2002 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 have indefinite lives and should not be amortized. Under U.S. 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 U.S. 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 the 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 U.S. GAAP, the Company applies the SEC regulations, which require that all machinery and equipment, both domestic and imported, be restated using the 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 U.S. GAAP, if interest 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 U.S. GAAP reconciliation of the majority net income and majority stockholders’ equity. If the borrowings are denominated in U.S. dollars, the weighted-average interest rate on all such outstanding debt is applied to the balance of construction-in-progress to determine the amount to be capitalized. If the borrowings are denominated in Mexican pesos, the amount of interest to be capitalized as noted above is reduced by the gain on monetary position associated with the debt.

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).

Under U.S. 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 the derivative instrument be recognized in the net income or other comprehensive income, if the instruments represent cash flow hedges that qualify for hedge accounting.

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 U.S. 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 U.S. GAAP has not been adequately documented; therefore, a reconciling item has been included in the U.S. 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.

i) Deferred Income Taxes and Employee Profit Sharing:

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

- Under Mexican GAAP, deferred taxes are classified as non-current, while under U.S. GAAP 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 on monetary position. Under U.S. GAAP, the deferred tax balance is classified as a non-monetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain (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 U.S. GAAP, the same liability method as used for deferred income taxes is applied; and
- The differences in the restatements of prior year financial statements, start-up expenses, restatement of imported machinery and equipment, the capitalization of financing costs, financial instruments and the pension plan mentioned in Note 27 a), d), f), g), h) and j) generate a difference calculating the deferred income tax under U.S. GAAP compared to the one presented under Mexican GAAP (see Note 23 d).

	June 30, 2004	December 31, 2003
Reconciliation of Deferred Income Taxes		
Deferred income taxes under Mexican GAAP	**Ps. 3,364**	Ps. 3,922
U.S. GAAP adjustments:		
Restatement of imported equipment	**(8)**	73
Capitalization of integral result of financing	**157**	162
Start-up expenses	**(41)**	(39)
Pension plan	**13**	16
Financial instruments	**100**	(84)
Restatement of prior year financial statements	**—**	(18)
Total adjustments	**221**	110
Deferred income taxes under U.S. GAAP	**Ps. 3,585**	Ps. 4,032

The total deferred income taxes under U.S. GAAP include the corresponding current portion as of June 30, 2004 and December 31, 2003 of Ps. 1,788 and Ps. 1,766, respectively.

	June 30, 2004	December 31, 2003
Changes in the balance of deferred income taxes		
Initial balance	**Ps. 4,032**	Ps. 4,782
Panamco acquisition effect	**—**	(949)
Financial instruments	**175**	(129)
Provision for the period	**(585)**	397
Change in the statutory income tax rate	**(37)**	(69)
Ending balance	**Ps. 3,585**	Ps. 4,032
Reconciliation of Deferred Employee Profit Sharing		
Deferred employee profit sharing under Mexican GAAP	**—**	—
U.S. GAAP adjustments:		
Allowance for doubtful accounts	**(9)**	(9)
Inventories	**491**	510
Prepaid expenses	**17**	21
Property, plant and equipment	**1,241**	1,313
Capitalization of interest expense	**41**	43
Intangible and other assets	**22**	(35)
Pension plan	**(78)**	(74)
Seniority premiums	**(13)**	(13)
Medical services	**(18)**	(15)
Other reserves	**(84)**	(113)
Total adjustments	**1,610**	1,628
Deferred employee profit sharing under U.S. GAAP	**1,610**	1,628
Changes in the balance of deferred employee profit sharing		
Initial balance	**1,628**	1,722
Panamco acquisition effect	**—**	38
Provision for the period	**(18)**	(132)
Ending balance	**1,610**	1,628

j) Pension Plan:

Under Mexican GAAP, the liabilities for employee benefits are determined using actuarial computations in accordance with Bulletin D-3, “Obligaciones Laborales” (Labor Obligations), which is substantially the same as U.S. 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 costs and in the amortization expense.

Under Mexican GAAP and U.S. GAAP, there is no difference in the liabilities for seniority premiums and postretirement medical benefits.

The Company has prepared a study of pension costs under U.S. GAAP based on actuarial calculations using the same assumptions applied under Mexican GAAP (see Note 16). The required disclosures under SFAS No. 87 are as follows:

	June 30, 2004	June 30, 2003
Net Pension Cost		
Service cost	**Ps. 51**	Ps. 38
Interest cost	**94**	76
Actual return on pension plan funds	**(51)**	(50)
Net amortization and deferral	**25**	40
Net pension cost under U.S. GAAP	**119**	104
Net pension cost recorded under Mexican GAAP	**106**	74
Additional expense that must be recognized under U.S. GAAP	**Ps. 13**	Ps. 30

	June 30, 2004	December 31, 2003
Pension Liability		
Projected benefit obligation	**Ps. 3,379**	Ps. 3,331
Pension plan funds at fair value	**(1,673)**	(1,698)
Unfunded projected benefit obligation	**1,706**	1,633
Unrecognized net transition obligation	**(625)**	(659)
Total unfunded accrued pension liability under U.S. GAAP	**1,081**	974
Total unfunded accrued pension liability under Mexican GAAP	**1,121**	1,052
Liability that must be canceled under U.S. GAAP	**(40)**	(78)
Change in Projected Benefit Obligation		
Initial balance	**3,331**	2,631
Panamco acquisition	**—**	454
Service cost	**51**	88
Interest cost	**94**	163
Actuarial loss	**(12)**	185
Benefits paid on pension plan funds	**(85)**	(190)
Ending balance	**3,379**	3,331
Change in Pension Plan Funds		
Initial balance	**1,698**	1,670
Panamco acquisition	**—**	167
Actual return on plan assets in real terms	**51**	105
Actuarial loss	**9**	(138)
Employee contribution	**—**	84
Benefits paid on pension plan funds	**(85)**	(190)
Ending balance	**1,673**	1,698

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

The U.S. GAAP adjustments shown in Note 28 a) and b) are calculated on a consolidated basis. Therefore, the minority interest effect is presented as a separate line item, in order to obtain net income and stockholders' equity.

The minority interest in U.S. GAAP adjustments is as follows:

	June 30, 2004	June 30, 2003
Income Statement		
Restatement of imported machinery and equipment	**Ps. 1**	Ps. 5
Capitalization of the integral result of financing	**5**	3
Financial instruments	**6**	(3)
Deferred income taxes	**(54)**	15
Deferred employee profit sharing	**(28)**	46
Pension plan cost	**2**	6
Deferred promotional expense	**37**	10
	Ps. (31)	Ps. 82

	June 30, 2004	December 31, 2003
Stockholders' Equity		
Restatement of imported machinery and equipment	**Ps. 101**	Ps. 62
Capitalization of the integral result of financing	**(153)**	(159)
Financial instruments	**(191)**	69
Deferred income taxes	**50**	(10)
Deferred employee profit sharing	**464**	492
Goodwill	**(21)**	(21)
Accumulated pension plan liability	**(2)**	(3)
Deferred promotional expense	**97**	61
	Ps. 345	Ps. 491

l) Acquisition of Minority Interest:

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 U.S. 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. Goodwill in accordance with SFAS No. 142 (see Note 27 e), is no longer amortizable. Under U.S. GAAP, the direct out-of-pocket costs identified with the purchase of minority interest are treated as additional goodwill.

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

FEMSA Cerveza	Ps. 8,075
Coca-Cola FEMSA	4,117
FEMSA Empaques	1,986
FEMSA Comercio	940
	Ps. 15,118

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 U.S. GAAP, the Company follows SFAS No. 95, “Statement of Cash Flows”, which is presented in historic Mexican pesos, with out the effects of inflation (see Note 27 n).

n) Retroactive Recognition of Debt Payment:

As mentioned in Note 18, in accordance with Mexican GAAP, Coca-Cola FEMSA elected to apply the proceeds of new debt against outstanding debt that was prepaid on July 2, 2004 as if the prepayment had occurred on June 30, 2004. Under U.S. GAAP, debt may not be extinguished until payment is made.

o) Summarized Financial Information under U.S. GAAP:

	June 30, 2004	December 31, 2003
Consolidated Balance Sheets		
Current assets	**Ps. 22,671**	Ps. 20,325
Property, plant and equipment	**43,338**	43,583
Other assets	**57,944**	57,536
Total assets	**123,953**	121,444
Current liabilities	**18,475**	19,533
Long-term liabilities	**40,646**	41,616
Total liabilities	**59,121**	61,149
Minority interest in consolidated subsidiaries	**19,840**	17,496
Stockholders’ equity	**44,992**	42,799
Total liabilities and stockholders’ equity	**Ps. 123,953**	Ps. 121,444

	June 30,	
	2004	**2003**
Consolidated Income Statements		
Total revenues	**Ps.43,712**	Ps. 33,109
Income from operations	**5,903**	4,946
Income before income tax and tax on assets	**4,577**	2,823
Income tax and tax on assets	**1,505**	912
Income before extraordinary items	**3,072**	1,911
Extraordinary items	**1,175**	—
Income before minority interest	**4,247**	1,911
Minority interest in results of consolidated subsidiaries	**1,727**	562
Net income	**2,520**	1,349
Cumulative translation adjustment	**177**	175
Cumulative result of holding non-monetary assets	**(502)**	(1,143)
Financial instruments	**530**	—
Other comprehensive income	**205**	(968)
Comprehensive income	**Ps. 2,725**	Ps. 381
Net income per share (constant pesos):		
Per Series "B" share:		
Before extraordinary items	**Ps. 0.334**	Ps. 0.227
Extraordinary items	**0.090**	—
Per Series "D" share:		
Before extraordinary items	**Ps. 0.417**	Ps. 0.284
Extraordinary items	**0.113**	—
Consolidated Cash Flows [(1)]		
Consolidated net income	**Ps. 4,247**	Ps. 1,826
Non-cash items	**2,832**	2,571
Gross operating cash flows	**7,079**	4,397
Working capital investment	**(747)**	(1,096)
Recoverable taxes, net	**(967)**	(1,332)
Interest payable	**21**	(53)
Labor obligations	**(101)**	(4)
Net cash flows from operating activities	**5,285**	1,912
Investments in:		
Shares	**100**	6
Property, plant and equipment	**(2,810)**	(2,871)
Panamco acquisition	**—**	(29,158)
Other assets	**256**	63
Net cash flows used in investing activities	**(2,454)**	(31,960)
Bank loans	**(2,272)**	17,137
Dividends declared and paid	**(814)**	(1,043)
Other financial transactions	**500**	5,792
Net cash flows provided by (used in) financing activities	**(2,586)**	21,886
Cash and cash equivalents:		
Net increase (decrease)	**245**	(8,162)
Cash received in acquisition of Panamco	**—**	643
Initial balance	**7,646**	15,208
Ending balance	**Ps. 7,891**	Ps. 7,689
Supplemental cash flow information:		
Interest paid	**Ps. 1,408**	Ps. 588
Income tax and tax on assets paid	**3,034**	1,115

(1) Expressed in millions of historical Mexican pesos.

	June 30, 2004	December 31, 2003
Consolidated Statements of Changes in Stockholders' Equity		
Initial balance	**Ps.42,799**	Ps. 38,857
Dividends declared and paid	**(532)**	(415)
Capital contribution by The Coca-Cola Company	**—**	1,741
Financial instruments	**530**	(392)
Cumulative translation adjustment	**177**	(53)
Result of holding non-monetary assets	**(502)**	(263)
Net income	**2,520**	3,324
Ending balance	**Ps.44,992**	Ps. 42,799

Note 28. Reconciliation of Mexican GAAP to U.S. GAAP.

a) Reconciliation of Net Income:

	June 30,	
	2004	2003
Net majority income under Mexican GAAP	**Ps.2,434**	Ps.1,217
U.S. GAAP adjustments:		
Restatement of prior year financial statements (Note 27 a)	**—**	(45)
Deferred promotional expenses (Note 27 c)	**(68)**	(9)
Start-up expenses (Note 27 d)	**(9)**	(3)
Intangible assets and goodwill (Note 27 e)	**7**	3
Restatement of imported machinery and equipment (Note 27 f)	**(15)**	(47)
Capitalization of the integral result of financing (Note 27 g)	**(13)**	(14)
Financial instruments (Note 27 h)	**29**	(32)
Deferred income taxes (Note 27 i)	**181**	246
Deferred employee profit sharing (Note 27 i)	**18**	(19)
Pension plan (Note 27 j)	**(13)**	(30)
Minority interest (Note 27 k)	**(31)**	82
Total adjustments	**86**	132
Net income under U.S. GAAP	**Ps.2,520**	Ps.1,349

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

b) Reconciliation of Stockholders' Equity:

	June 30, 2004	December 31, 2003
Majority stockholders' equity under Mexican GAAP	**Ps.31,062**	Ps.29,038
U.S. GAAP adjustments:		
Restatement of prior year financial statements (Note 27 a)	**—**	(223)
Deferred promotional expense (Note 27 c)	**(181)**	(113)
Start-up expenses (Note 27 d)	**(125)**	(116)
Intangible assets and goodwill (Note 27 e)	**79**	72
Restatement of imported machinery and equipment (Note 27 f)	**(26)**	227
Capitalization of the integral result of financing (Note 27 g)	**477**	490
Financial instruments (Note 27 h)	**303**	(256)
Deferred income taxes (Note 27 i)	**(221)**	(110)
Deferred employee profit sharing (Note 27 i)	**(1,610)**	(1,628)
Pension plan (Note 27 j)	**40**	78
Minority interest (Note 27 k)	**345**	491
Acquisition of minority interest (Note 27 l)	**14,849**	14,849
Total adjustments	**13,930**	13,761
Stockholders' equity under U.S. GAAP	**Ps.44,992**	Ps.42,799

c) Reconciliation of Comprehensive Income:

	June 30,	
	2004	2003
Majority comprehensive income under Mexican GAAP	**Ps.2,556**	Ps.1,082
U.S. GAAP adjustments:		
Net income (Note 28 a)	**86**	132
Financial Instruments	**530**	—
Translation adjustment	**223**	109
Result of holding non-monetary assets	**(670)**	(942)
Comprehensive income under U.S. GAAP	**Ps.2,725**	Ps. 381

Note 29. Future Impact of Recently Issued Accounting Standards Not Yet in Effect.

The Instituto Mexicano de Contadores Públicos ("IMCP") issued the following bulletins whose application is mandatory effective 2005:

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

Bulletin D-3 establishes: i) accounting standards for postretirement benefits other than pension, which in accordance with Circular No. 50, were previously regulated by International Accounting Standard No. 19; ii) accounting standards for the treatment of reductions and early extinguishment of post retirement benefits other than pensions; and iii) accounting standards for severance payments resulting from a restructuring and severance payments resulting from situations other than a restructuring. The Company does not anticipate that this new standard will have a significant impact on its financial position or results of operations.

b) 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 as follows: i) fair value; ii) cash flow; and iii) foreign currency, for purposes of defining whether the gain or loss that results from the valuation of hedging instruments at fair value should be recorded in current year income or other comprehensive income.

c) 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 income. Bulletin C-2 does not allow the transfer of financial instruments originally classified as trading 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.

d) Bulletin B-7 "Adquisición de Negocios" ("Business Combination"):

Bulletin B-7 establishes: i) the purchase method as the only acceptable method to account for business combinations and that IAS No. 22 "Business Combination" will no longer be supplemental; ii) the prohibition of the amortization of goodwill; iii) specific standards for the acquisition of minority interest and asset transfers or share exchanges between companies under common control; and iv) supplements the accounting for intangible assets recognized in a business combination, in accordance with Bulletin C-8. The Company believes that this new standard will not have a significant impact on its financial position or its results of operation.

Note 30. Subsequent Event.

On July 7, the Company issued two *certificados bursátiles* amounting a total of Ps. 2,500 in the Mexican market, with the following characteristics:

Certificados Bursátiles	Amount	Interest Rate	Maturity
Issue 1	Ps.1,250	CETES+0.89%	5 years
Issue 2	1,250	TIIE +0.45 %	4 years

The proceeds from this issuance are expected to be used to buy back a 30% stake in FEMSA Cerveza from Interbrew (see Note 2).