

MEXICAN ECONOMIC DEVELOPMENT INC

Form 20-F

June 25, 2010

Table of Contents

As filed with the Securities and Exchange Commission on June 25, 2010.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

Commission file number 333-08752

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

(Exact name of registrant as specified in its charter)

Mexican Economic Development, Inc.

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(Translation of registrant's name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(Address of principal executive offices)

Juan F. Fonseca

General Anaya No. 601 Pte.

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(52-818) 328-6167

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

address of company contact person)

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

Title of each class:	Name of each exchange on which registered
American Depositary Shares, each representing 10 BD Units, and each BD Unit consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value	New York Stock Exchange

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

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

2,161,177,770 BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value. The BD Units represent a total of 2,161,177,770 Series B Shares, 4,322,355,540 Series D-B Shares and 4,322,355,540 Series D-L Shares.

1,417,048,500 B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 7,085,242,500 Series B Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes

No

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

Yes

No

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

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

IFRS

Other

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

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Item 17

Item 18

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

Yes

No

Table of Contents**TABLE OF CONTENTS**

	Page
<u>INTRODUCTION</u>	1
<u>References</u>	1
<u>Currency Translations and Estimates</u>	1
<u>Forward-Looking Information</u>	1
ITEMS 1-2. <u>NOT APPLICABLE</u>	2
ITEM 3. <u>KEY INFORMATION</u>	2
<u>Selected Consolidated Financial Data</u>	2
<u>Dividends</u>	5
<u>Exchange Rate Information</u>	7
<u>Risk Factors</u>	8
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	17
<u>The Company</u>	17
<u>Overview</u>	17
<u>Corporate Background</u>	18
<u>Ownership Structure</u>	22
<u>Significant Subsidiaries</u>	24
<u>Business Strategy</u>	24
<u>Coca-Cola FEMSA</u>	24
<u>FEMSA Cerveza</u>	41
<u>FEMSA Comercio</u>	52
<u>Other Business</u>	57
<u>Description of Property, Plant and Equipment</u>	58
<u>Insurance</u>	60
<u>Capital Expenditures and Divestitures</u>	60
<u>Regulatory Matters</u>	62
ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>	67
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	67
<u>Overview of Events, Trends and Uncertainties</u>	67
<u>Recent Developments</u>	68
<u>Operating Leverage</u>	70
<u>Critical Accounting Estimates</u>	71
<u>New Accounting Pronouncements</u>	75
<u>Operating Results</u>	77
<u>Liquidity and Capital Resources</u>	88
<u>U.S. GAAP Reconciliation</u>	96
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	97
<u>Directors</u>	97
<u>Senior Management</u>	103
<u>Compensation of Directors and Senior Management</u>	106
<u>EVA Stock Incentive Plan</u>	106
<u>Insurance Policies</u>	107
<u>Ownership by Management</u>	107

Table of Contents

	<u>Board Practices</u>	107
	<u>Employees</u>	109
ITEM 7.	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	110
	<u>Major Shareholders</u>	110
	<u>Related-Party Transactions</u>	111
	<u>Voting Trust</u>	111
	<u>Interest of Management in Certain Transactions</u>	111
	<u>Business Transactions between Coca-Cola FEMSA and The Coca-Cola Company</u>	112
ITEM 8.	<u>FINANCIAL INFORMATION</u>	113
	<u>Consolidated Financial Statements</u>	113
	<u>Dividend Policy</u>	113
	<u>Legal Proceedings</u>	113
	<u>Significant Changes</u>	115
ITEM 9.	<u>THE OFFER AND LISTING</u>	115
	<u>Description of Securities</u>	115
	<u>Trading Markets</u>	117
	<u>Trading on the Mexican Stock Exchange</u>	117
	<u>Price History</u>	118
ITEM 10.	<u>ADDITIONAL INFORMATION</u>	121
	<u>Bylaws</u>	121
	<u>Taxation</u>	127
	<u>Material Contracts</u>	130
	<u>Documents on Display</u>	136
ITEM 11.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	137
	<u>Interest Rate Risk</u>	137
	<u>Foreign Currency Exchange Rate Risk</u>	141
	<u>Equity Risk</u>	144
	<u>Commodity Price Risk</u>	144
ITEM 12.	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	144
ITEM 12A.	<u>DEBT SECURITIES</u>	144
ITEM 12B.	<u>WARRANTS AND RIGHTS</u>	144
ITEM 12C.	<u>OTHER SECURITIES</u>	144
ITEM 12D.	<u>AMERICAN DEPOSITARY SHARES</u>	144
ITEMS 13-14.	<u>NOT APPLICABLE</u>	145
ITEM 15.	<u>CONTROLS AND PROCEDURES</u>	145
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	147
ITEM 16B.	<u>CODE OF ETHICS</u>	147
ITEM 16C.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	148

Table of Contents

ITEM 16D.	<u>NOT APPLICABLE</u>	148
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	148
ITEM 16F.	<u>NOT APPLICABLE</u>	149
ITEM 16G.	<u>CORPORATE GOVERNANCE</u>	149
ITEM 17.	<u>NOT APPLICABLE</u>	151
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	151
ITEM 19.	<u>EXHIBITS</u>	152

Table of Contents

INTRODUCTION

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

References

The terms FEMSA, our company, we, us and our, are used in this annual report to refer to Fomento Económico Mexicano, S.A.B. de C.V. and its subsidiaries on a consolidated basis. We refer to our subsidiary Coca-Cola FEMSA, S.A.B. de C.V., as Coca-Cola FEMSA, and our subsidiary FEMSA Comercio, S.A. de C.V., as FEMSA Comercio.

The term S.A.B. stands for *sociedad anónima bursátil*, which is the term used in Mexico to denominate a publicly traded company under the Mexican Securities Market Law (*Ley del Mercado de Valores*), which we refer to as the Mexican Securities Law.

References to U.S. dollars, US\$, dollars or \$ are to the lawful currency of the United States of America. References to Mexican pesos, pesos or Ps. are to the lawful currency of the United Mexican States, or Mexico.

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 13.0576 to US\$ 1.00, the noon buying rate for Mexican pesos on December 31, 2009, as published by the Federal Reserve Bank of New York. On April 30, 2010, this exchange rate was Ps. 12.2281 to US\$ 1.00. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 2005.

To the extent estimates are contained in this annual report, we believe that such estimates, which are based on internal data, are reliable. Amounts in this annual report are rounded, and the totals may therefore not precisely equal the sum of the numbers presented.

Per capita growth rates and population data have been computed based upon statistics prepared by the *Instituto Nacional de Estadística, Geografía e Informática* of Mexico (National Institute of Statistics, Geography and Information, which we refer to as the Mexican Institute of Statistics), the Federal Reserve Bank of New York, the U.S. Federal Reserve Board and *Banco de México* (Bank of Mexico), local entities in each country and upon our estimates.

Forward-Looking Information

This annual report contains words, such as believe, expect and anticipate and similar expressions that identify forward-looking statements. Use of these words reflects our views about future events and financial performance. Actual results could differ materially from those projected in these forward-looking statements as a result of various factors that may be beyond our control, including but not limited to effects on our company from changes in our relationship with or among our affiliated companies, movements in the prices of raw materials, competition, significant developments in Mexico or international economic or political conditions or changes in our regulatory environment. Accordingly, we caution readers not to place undue reliance on these forward-looking statements. In any event, these statements speak only as of their respective dates, and we undertake no obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

Table of Contents

ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

This annual report includes, under Item 18, our audited consolidated balance sheets as of December 31, 2009 and 2008, the related consolidated statements of income and changes in stockholders' equity for the years ended December 31, 2009, 2008 and 2007, the consolidated statement of cash flows for the years ended December 31, 2009 and 2008 and consolidated statement of changes in financial position for the year ended December 31, 2007. Our audited consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards (*Normas de Información Financiera* or NIF), which differ in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP.

Notes 26 and 27 to our audited consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to our company, together with a reconciliation to U.S. GAAP of net income and stockholders' equity as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income and cash flows for the same periods presented for Mexican Financial Reporting Standards purposes and for the consolidated statement of changes in stockholders' equity for the years ended December 31, 2009 and 2008. In the reconciliation to U.S. GAAP, we present our subsidiary Coca-Cola FEMSA, which is a consolidated subsidiary for purposes of Mexican Financial Reporting Standards, under the equity method for U.S. GAAP purposes, due to the substantive participating rights of The Coca-Cola Company as a minority shareholder in Coca-Cola FEMSA.

The effects of inflation accounting under Mexican Financial Reporting Standards have not been reversed in the reconciliation to U.S. GAAP. See note 26 to our audited consolidated financial statements.

Beginning on January 1, 2008, in accordance with changes to NIF B-10 under the Mexican Financial Reporting Standards, we discontinued the use of inflation accounting for our subsidiaries that operate in non-inflationary countries where cumulative inflation for the three preceding years was less than 26%. Our subsidiaries in Mexico, Guatemala, Panama, Colombia and Brazil operate in non-inflationary economic environments, therefore 2009 and 2008 figures reflect inflation effects only through 2007. Our subsidiaries in Nicaragua, Costa Rica, Venezuela and Argentina operate in economic environments in which cumulative inflation during the same three-year period was 26% or greater, and we therefore continue recognizing inflationary accounting for 2009 and 2008. For comparison purposes, the figures prior to 2008 have been restated in Mexican pesos with purchasing power as of December 31, 2007, taking into account local inflation for each country with reference to the consumer price index. Local currencies have been converted into Mexican pesos using official exchange rates published by the local central bank of each country. See note 3 to our consolidated financial statements.

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by, our audited consolidated financial statements and the notes to those statements. See Item 18. Financial Statements. The selected financial information is presented on a consolidated basis and is not necessarily indicative of our financial position or results of operations at or for any future date or period. Certain figures for years prior to 2009 have been reclassified for comparison purposes to 2009 figures. See note 2 to our consolidated financial statements.

Table of Contents

	Selected Consolidated Financial Information					
	Year Ended December 31,					
	2009 ⁽¹⁾	2009	2008	2007	2006	2005
	(In millions of U.S. dollars and millions of Mexican pesos, except for percentages, per share data and weighted average number of shares outstanding)					
Income Statement Data:						
Mexican FRS:						
Total revenues	\$ 15,090	Ps. 197,033	Ps. 168,022	Ps. 147,556	Ps. 136,120	Ps. 119,462
Income from operations ⁽²⁾	2,069	27,012	22,684	19,736	18,637	17,601
Income taxes ⁽³⁾	299	3,908	4,207	4,950	4,608	4,620
Consolidated net income	1,155	15,082	9,278	11,936	9,860	9,073
Net controlling interest income	759	9,908	6,708	8,511	7,127	5,951
Net noncontrolling interest income	396	5,174	2,570	3,425	2,733	3,122
Net controlling interest income ⁽⁴⁾ :						
Per Series B Share	0.04	0.49	0.33	0.42	0.36	0.31
Per Series D Share	0.05	0.62	0.42	0.53	0.44	0.39
Weighted average number of shares outstanding (in millions):						
Series B Shares		9,246.4	9,246.4	9,246.4	9,246.4	8,834.9
Series D Shares		8,644.7	8,644.7	8,644.7	8,644.7	8,260.1
Allocation of earnings:						
Series B Shares		46.11%	46.11%	46.11%	46.11%	46.11%
Series D Shares		53.89%	53.89%	53.89%	53.89%	53.89%
U.S. GAAP:						
Total revenues	\$ 7,881	Ps. 102,902	Ps. 91,650	Ps. 83,362	Ps. 75,704	Ps. 63,031
Income from operations	663	8,661	7,881	7,667	7,821	6,911
Participation in Coca-Cola FEMSA s earnings ⁽⁵⁾	346	4,516	2,994	3,635	2,420	2,205
Net income	818	10,685	6,599	8,589	6,804	6,059
Less: Net noncontrolling interest income	(60)	(783)	253	(32)	169	
Net controlling interest income	758	9,902	6,852	8,557	6,973	6,059
Net controlling interest income ⁽⁴⁾ :						
Per Series B Share	0.04	0.49	0.34	0.43	0.35	0.32
Per Series D Share	0.05	0.62	0.43	0.53	0.43	0.40
Weighted average number of shares outstanding (in millions):						
Series B Shares		9,246.4	9,246.4	9,246.4	9,246.4	8,834.9
Series D Shares		8,644.7	8,644.7	8,644.7	8,644.7	8,260.1
Balance Sheet Data:						
Mexican FRS:						
Total assets	\$ 16,166	Ps. 211,091	Ps. 187,345	Ps. 168,187	Ps. 156,215	Ps. 139,823
Current liabilities	3,505	45,767	44,094	33,517	28,060	22,510
Long-term debt and notes payable ⁽⁶⁾	2,666	34,810	32,210	30,665	35,673	32,129
Other long-term liabilities	1,125	14,685	14,146	14,352	14,274	10,786
Capital stock	410	5,348	5,348	5,348	5,348	5,348
Total stockholders' equity	8,870	115,829	96,895	89,653	78,208	74,398
Controlling interest	6,251	81,637	68,821	64,578	56,654	52,400
Noncontrolling interest	2,619	34,192	28,074	25,075	21,554	21,998

Table of Contents

	Selected Consolidated Financial Information					
	Year Ended December 31,					
	2009 ⁽¹⁾	2009	2008	2007	2006	2005
	(In millions of U.S. dollars and millions of Mexican pesos, except for percentages, per share data and weighted average number of shares outstanding)					
U.S. GAAP:						
Total assets	\$ 12,100	Ps. 158,000	Ps. 139,219	Ps. 127,167	Ps. 116,392	Ps. 98,869
Current liabilities	1,803	23,539	23,654	18,579	14,814	10,090
Long-term debt ⁽⁶⁾	1,847	24,119	19,557	16,569	18,749	15,177
Other long-term liabilities	835	10,900	9,966	8,715	8,738	4,996
Noncontrolling interest	98	1,274	505	698	166	52
Controlling interest	7,518	98,168	85,537	82,606	73,925	68,554
Capital stock	410	5,348	5,348	5,348	5,348	5,348
Stockholders' equity ⁽⁷⁾	7,616	99,442	86,042	83,304	74,091	68,606
Other information:						
Mexican FRS:						
Depreciation ⁽⁸⁾	\$ 482	Ps. 6,295	Ps. 5,508	Ps. 4,930	Ps. 4,954	Ps. 4,682
Capital expenditures ⁽⁹⁾	1,009	13,178	14,234	11,257	9,422	7,508
Operating margin ⁽¹⁰⁾	13.7%	13.7%	13.5%	13.4%	13.7%	14.7%
U.S. GAAP:						
Depreciation ⁽⁸⁾	\$ 213	Ps. 2,786	Ps. 2,439	Ps. 2,114	Ps. 2,080	Ps. 2,079
Operating margin ⁽¹⁰⁾	8.4%	8.4%	8.6%	9.2%	10.3%	11.0%

- (1) Translation to U.S. dollar amounts at an exchange rate of Ps. 13.0576 to US\$ 1.00 solely for the convenience of the reader.
- (2) Beginning in 2008, Mexican Financial Reporting Standard NIF D-3 (Employee s Benefits) requires the presentation of financial expenses related to labor liabilities as part of the comprehensive financing result, which was previously recorded within operating income. Accordingly, information for prior years has been reclassified for comparability purposes.
- (3) For 2009 and 2008, includes income tax, and for 2007, 2006 and 2005, includes income tax and tax on assets. Since 2007, we are required to present employee profit sharing within other expenses pursuant to Mexican Financial Reporting Standards Interpretation (INIF) No. 4 *Presentación en el Estado de Resultados de la Participación de los Trabajadores en la Utilidad* (Presentation of Employee Profit Sharing in the Income Statement). Information for prior years has been modified for comparability purposes.
- (4) Net controlling interest income per share data has been modified retrospectively to reflect our 3:1 stock split effective May 25, 2007.
- (5) Coca-Cola FEMSA is not consolidated for U.S. GAAP purposes and is recorded under the equity method, as discussed in note 26 (a) to our audited consolidated financial statements.
- (6) Includes long-term debt minus the current portion of long-term debt.
- (7) In 2009, ASC 810-10-65 came into effect and requires that noncontrolling interest be included as part of the total stockholders' equity. This standard was applied retrospectively for comparative purposes.
- (8) Includes bottle breakage.

Table of Contents

- (9) Includes investments in property, plant and equipment, intangible and other assets.
 (10) Operating margin is calculated by dividing income from operations by total revenues.

Dividends

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

The following table sets forth for each year the nominal amount of dividends per share that we declared in Mexican pesos and U.S. dollar amounts and their respective payment dates for the 2005 to 2009 fiscal years:

Date Dividend Paid	Fiscal Year with Respect to which Dividend was Declared	Aggregate Amount of Dividend Declared	Per Series B Share Dividend⁽¹⁾	Per Series B Share Dividend⁽¹⁾	Per Series D Share Dividend⁽¹⁾	Per Series D Share Dividend⁽¹⁾
June 15, 2006	2005	Ps. 986,000,000	Ps. 0.0492	\$ 0.0043	Ps. 0.0615	\$ 0.0054
May 15, 2007	2006	Ps. 1,485,000,000	Ps. 0.0741	\$ 0.0069	Ps. 0.0926	\$ 0.0086
May 8, 2008	2007	Ps. 1,620,000,000	Ps. 0.0807	\$ 0.0076	Ps. 0.1009	\$ 0.0095
May 4, 2009 and November 3, 2009 ⁽²⁾	2008	Ps. 1,620,000,000	Ps. 0.0807	\$ 0.0061	Ps. 0.1009	\$ 0.0076
May 4, 2009			Ps. 0.0404	\$ 0.0030	Ps. 0.0505	\$ 0.0038
November 3, 2009			Ps. 0.0404	\$ 0.0030	Ps. 0.0505	\$ 0.0038
May 4, 2010 and November 3, 2010 ⁽³⁾	2009	Ps. 2,600,000,000	Ps. 0.1296	N/a	Ps. 0.1621	N/a
May 4, 2010			Ps. 0.0648	\$ 0.0053	Ps. 0.0810	\$ 0.0066
November 3, 2010			Ps. 0.0648	N/a ⁽⁴⁾	Ps. 0.0810	N/a ⁽⁴⁾

- (1) The per series dividend amount has been adjusted for comparability purposes to reflect the 3:1 stock split effective May 25, 2007 by dividing, for 2005, 2006 and 2007, 9,246,420,270 Series B Shares and 8,644,711,080 Series D Shares, which in each case represents the number of shares outstanding at the date each dividend is declared as adjusted retroactively for prior periods as applicable to reflect the 3:1 stock split.
- (2) The dividend payment for 2008 was divided into two equal payments. The first payment was paid on May 4, 2009, with a record date of April 30, 2009, and the second payment was paid on November 3, 2009, with a record date of October 30, 2009.
- (3) The dividend payment for 2009 was divided into two equal payments. The first payment was paid on May 4, 2010, with a record date of May 3, 2010, and the second payment will be paid on November 3, 2010, with a record date of November 2, 2010.
- (4) The U.S. dollar amount of the second 2009 dividend payment will be based on the exchange rate on the record date of November 2, 2010. At the annual ordinary general shareholders meeting, or AGM, the board of directors submits the financial statements of our company for the previous fiscal year, together with a report thereon by the board of directors. Once the holders of Series B Shares have approved the financial statements, they determine the allocation of our net profits for the preceding year. Mexican law requires the allocation of at least 5% of net profits to a legal reserve, which is not subsequently available for distribution, until the amount of the legal reserve equals 20% of our paid in capital stock. Thereafter, the holders of Series B Shares may determine and allocate a certain percentage of net profits to any general or special reserve, including a reserve for open-market purchases of our shares. The remainder of net profits is available for distribution in the form of dividends to our shareholders. Dividends may only be paid if net profits are sufficient to offset losses from prior fiscal years.

Table of Contents

Our bylaws provide that dividends will be allocated among the shares outstanding and fully paid at the time a dividend is declared in such manner that each Series D-B Share and Series D-L Share receives 125% of the dividend distributed in respect of each Series B Share. Holders of Series D-B Shares and Series D-L Shares are entitled to this dividend premium in connection with all dividends paid by us other than payments in connection with the liquidation of our company.

Subject to certain exceptions contained in the deposit agreement dated May 11, 2007, among FEMSA, The Bank of New York, as ADS depositary, and holders and beneficial owners from time to time of our American Depositary Shares, or ADSs, evidenced by American Depositary Receipts, or ADRs, any dividends distributed to holders of our ADSs will be paid to the ADS depositary in Mexican pesos and will be converted by the ADS depositary into U.S. dollars. As a result, restrictions on conversion of Mexican pesos into foreign currencies and exchange rate fluctuations may affect the ability of holders of our ADSs to receive U.S. dollars and the U.S. dollar amount actually received by holders of our ADSs.

Table of Contents**Exchange Rate Information**

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

Period ended December 31,	Exchange Rate			Period End
	High	Low	Average ⁽¹⁾	
2005	11.41	10.41	10.89	10.63
2006	11.46	10.43	10.91	10.80
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.21	13.83
2009	15.41	12.63	13.50	13.06

(1) Average month-end rates.

	Exchange Rate		
	High	Low	Period End
2008:			
First Quarter	Ps. 10.97	Ps. 10.63	Ps. 10.63
Second Quarter	10.60	10.27	10.30
Third Quarter	10.97	9.92	10.97
Fourth Quarter	13.94	10.97	13.83
2009:			
First Quarter	Ps. 15.41	Ps. 13.33	Ps. 14.21
Second Quarter	13.89	12.89	13.17
Third Quarter	13.80	12.82	13.48
Fourth Quarter	13.67	12.63	13.06
December	13.08	12.63	13.06
2010:			
January	Ps. 13.03	Ps. 12.65	Ps. 13.03
February	13.19	12.76	12.76
March	12.74	12.30	12.30
First Quarter	13.19	12.30	12.30
April	12.41	12.16	12.23
May	13.14	12.27	12.86
June ⁽¹⁾	12.92	12.54	12.54

(1) Information from June 1 to June 18, 2010.

Table of Contents

RISK FACTORS

Risks Related to Our Company

Coca-Cola FEMSA

Coca-Cola FEMSA's business depends on its relationship with The Coca-Cola Company, and changes in this relationship may adversely affect its results of operations and financial position.

Approximately 99% of Coca-Cola FEMSA's sales volume in 2009 was derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages through standard bottler agreements in certain territories in Mexico and Latin America, which we refer to as Coca-Cola FEMSA's territories. See Item 4. Information on the Company Coca-Cola FEMSA Coca-Cola FEMSA's Territories. Through its rights under the bottler agreements and as a large shareholder, The Coca-Cola Company has the right to participate in the process utilized for the making of important decisions of Coca-Cola FEMSA's business.

The Coca-Cola Company may unilaterally set the price for its concentrate. In addition, under its bottler agreements, Coca-Cola FEMSA is prohibited from bottling or distributing any other beverages without The Coca-Cola Company's authorization or consent and it may not transfer control of the bottler rights of any of its territories without the consent of The Coca-Cola Company. On March 10, 2010, FEMSA announced that subsidiaries of FEMSA have signed an agreement with subsidiaries of the The Coca-Cola Company to amend the shareholders agreement of Coca-Cola FEMSA. The main purpose of the amendment is to set forth that the appointment and compensation of the chief executive officer and all officers reporting to the chief executive officer, as well as the adoption of decisions related to the ordinary operations of Coca-Cola FEMSA shall only require a simple majority vote of the board of directors. See Item 4. Information on the Company The Company Overview. The Coca-Cola Company may require that Coca-Cola FEMSA demonstrate its financial ability to meet its business. The Coca-Cola Company also makes significant contributions to Coca-Cola FEMSA's marketing expenses although it is not required to contribute a particular amount. Accordingly, The Coca-Cola Company may discontinue or reduce such contributions at any time.

Coca-Cola FEMSA depends on The Coca-Cola Company to renew its bottler agreements. In Mexico, Coca-Cola FEMSA has four bottler agreements; the agreements for two territories expire in June 2013 and the agreements for the other two territories expire in May 2015. Coca-Cola FEMSA's bottler agreements with The Coca-Cola Company will expire for Coca-Cola FEMSA's territories in the following countries: Argentina in September 2014; Brazil in April 2014; Colombia in June 2014; Venezuela in August 2016; Guatemala in March 2015; Costa Rica in September 2017; Nicaragua in May 2016; and Panama in November 2014. All of Coca-Cola FEMSA's bottler agreements automatically renewable for ten-year terms, subject to the right of either party to give prior notice that it does not wish to renew a specific agreement. In addition, in the event a material breach of these agreements occurs, the agreements may be terminated. Termination would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on Coca-Cola FEMSA's business, financial conditions, results of operations and prospects.

The Coca-Cola Company has significant influence on the conduct of Coca-Cola FEMSA's business, which may result in Coca-Cola FEMSA taking actions contrary to the interests of its remaining shareholders.

The Coca-Cola Company has significant influence on the conduct of Coca-Cola FEMSA's business. Currently, The Coca-Cola Company indirectly owns 31.6% of Coca-Cola FEMSA's outstanding capital stock, representing 37.0% of its capital stock with full voting rights. The Coca-Cola Company is entitled to appoint four of Coca-Cola FEMSA's 18 directors and the vote of at least two of them is required to approve certain actions by Coca-Cola FEMSA's board of directors. On February 1, 2010, we and The Coca-Cola Company signed a second amendment to the shareholders agreement that confirms our power to govern the operating and financial policies of Coca-Cola FEMSA in order to exercise control over its operations in the ordinary course of business. Consequently, we are entitled to appoint 11 of Coca-Cola FEMSA's 18 directors and all of its executive officers. The Coca-Cola Company has the power to determine the outcome of certain protective rights, such as mergers, acquisitions, or the

Table of Contents

sale of any line of business, requiring approval by its board of directors and may have the power to determine the outcome of certain actions requiring approval of Coca-Cola FEMSA's shareholders. See Item 10. Additional Information Material Contracts Coca-Cola FEMSA. The interests of The Coca-Cola Company may be different from the interests of Coca-Cola FEMSA's remaining shareholders, which may result in Coca-Cola FEMSA taking actions contrary to the interests of its remaining shareholders.

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

Coca-Cola FEMSA engages in transactions with subsidiaries of The Coca-Cola Company, including cooperative marketing arrangements and a number of bottler agreements. In addition, Coca-Cola FEMSA has entered into cooperative marketing arrangements with The Coca-Cola Company. The transactions may create potential conflicts of interest, which could result in terms less favorable to Coca-Cola FEMSA than could be obtained from an unaffiliated third-party.

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

The beverage industry in territories in which Coca-Cola FEMSA operates is highly competitive. Coca-Cola FEMSA faces competition from other bottlers of sparkling beverages such as Pepsi products, and from producers of low cost beverages, or B brands. Coca-Cola FEMSA also competes in different beverage categories, other than sparkling beverages, such as water, juice-based beverages and sport drinks. Although competitive conditions are different in each of Coca-Cola FEMSA's territories, Coca-Cola FEMSA competes principally in terms of price, packaging, consumer sales promotions, customer service and product innovation. See Item 4. Information on the Company Coca-Cola FEMSA Competition. There can be no assurances that Coca-Cola FEMSA will be able to avoid lower pricing as a result of competitive pressure. Lower pricing, changes made in response to competition and changes in consumer preferences may have an adverse effect on Coca-Cola FEMSA's financial performance.

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

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

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

Water is an essential component of all of Coca-Cola FEMSA's products. Coca-Cola FEMSA obtains water from various sources in its territories, including springs, wells, rivers and local and state water companies pursuant to either contracts to obtain water or concessions granted by governments in its various territories. Coca-Cola FEMSA obtains the vast majority of the water used in its production pursuant to concessions to exploit wells, which are generally granted based on studies of the existing and projected groundwater supply. Coca-Cola FEMSA's existing water concessions or contracts to obtain water may be terminated by governmental authorities under certain circumstances and their renewal depends on receiving necessary authorizations from local and/or federal water authorities. See Item 4. Information on the Company Regulatory Matters Water Supply Law. In some of Coca-Cola FEMSA's other territories, its existing water supply may not be sufficient to meet its future production needs and the available water supply may be adversely affected by shortages or changes in governmental regulations.

Table of Contents

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

Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of sales and may adversely affect its results of operations.

Coca-Cola FEMSA's most significant raw materials are concentrate, which it acquires from affiliates of The Coca-Cola Company, packaging materials and sweeteners. Prices for concentrate are determined by The Coca-Cola Company as a percentage of the weighted average retail price in local currency, net of applicable taxes. In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Mexico, which began in 2007 and in Brazil in 2006. These increases were fully implemented in Brazil in 2008 and in Mexico in 2009, but Coca-Cola FEMSA may experience further increases in the future. The prices for Coca-Cola FEMSA's remaining raw materials are driven by market prices and local availability as well as the imposition of import duties and import restrictions and fluctuations in exchange rates. Coca-Cola FEMSA is also required to meet all of its supply needs from suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to it. Coca-Cola FEMSA's sales prices are denominated in the local currency in each country in which it operates, while the prices of certain materials, including those used in the bottling of its products (mainly resin, ingots used to make plastic bottles, finished plastic bottles, aluminum cans and high fructose corn syrup), are paid in or determined with reference to the U.S. dollar. These prices may increase if the U.S. dollar appreciates against the currency of any country in which Coca-Cola FEMSA operates, which occurred in 2009. See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.

After concentrate, packaging materials and sweeteners constitute the largest portion of Coca-Cola FEMSA's raw material costs. Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin and plastic ingots to make plastic bottles and from the purchase of finished plastic bottles, the prices of which are tied to crude oil prices and global resin supply. The average U.S. dollar prices Coca-Cola FEMSA paid for resin and plastic ingots decreased significantly in 2009 and in 2008 as compared to 2007, although Coca-Cola FEMSA did not benefit from such price decrease due to the devaluation of the Mexican peso against the U.S. dollar in 2009. Prices may increase in future periods. Sugar prices in all of the countries in which Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that cause it to pay in excess of international market prices for sugar. Sugar prices worldwide have been volatile during 2009, mainly due to a production shortfall in India, one of the largest global producers of sugar. Average sweetener prices paid during 2009 were higher as compared to 2008 in all of the countries in which Coca-Cola FEMSA operates. See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.

We cannot assure you that Coca-Cola FEMSA's raw material prices will not further increase in the future. Increases in the prices of raw materials would increase Coca-Cola FEMSA's cost of sales and adversely affect its financial performance.

In Venezuela, sugar supply was affected in 2009. We cannot assure you that Coca-Cola FEMSA will be able to meet its sugar requirements in the long-term if sugar supply conditions do not improve in Venezuela. See Item 4. Information on the Company Coca-Cola FEMSA Raw Materials.

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

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

Coca-Cola FEMSA's products are also subject to certain taxes in many of the countries in which it operates. Certain countries in Central America, Argentina and Brazil impose taxes on sparkling beverages. We

Table of Contents

cannot assure you that any governmental authority in any country where Coca-Cola FEMSA operates will not impose new taxes or increase taxes on its products in the future.

The imposition of new taxes or increases in taxes on Coca-Cola FEMSA's products may have a material adverse effect on its business, financial condition, prospects and financial performance.

Regulatory developments may adversely affect Coca-Cola FEMSA's business.

Coca-Cola FEMSA is subject to regulation in each of the territories in which it operates. The principal areas in which Coca-Cola FEMSA is subject to regulation are environment, labor, taxation, health and antitrust. Regulation can also affect Coca-Cola FEMSA's ability to set prices for its products. The adoption of new laws or regulations or a stricter interpretation or enforcement thereof in the countries in which Coca-Cola FEMSA operates may increase its operating costs or impose restrictions on its operations, which in turn, may adversely affect its financial condition, business and results of operations. In particular, environmental standards are becoming more stringent in several of the countries in which Coca-Cola FEMSA operates and Coca-Cola FEMSA is in the process of complying with these standards, although we cannot assure you that Coca-Cola FEMSA will be able to meet any timelines for compliance established by the relevant regulatory authorities. See Item 4. Information on the Company Regulatory Matters Environmental Matters. Further changes in current regulations may result in an increase in compliance costs, which may have an adverse effect on Coca-Cola FEMSA's future results of operations or financial condition.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which Coca-Cola FEMSA operates. It is currently subject to price controls in Argentina. The imposition of these restrictions or voluntary price restraints in other territories may have an adverse effect on Coca-Cola FEMSA's results of operations and financial position. We cannot assure you that governmental authorities in any country where Coca-Cola FEMSA operates will not impose statutory price controls or that it will need to implement voluntary price restraints in the future.

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

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

Coca-Cola FEMSA's operations have from time to time been subject to investigations and proceedings by antitrust authorities and litigation relating to alleged anticompetitive practices. Coca-Cola FEMSA has also been subject to investigations and proceedings on environmental and labor matters. See Item 8. Financial Information Legal Proceedings. We cannot assure you that these investigations and proceedings could not have an adverse effect on Coca-Cola FEMSA's results of operations or financial condition.

Economic and political conditions in the other Latin American countries in which Coca-Cola FEMSA operates may have an increasingly adverse effect on its business.

In addition to conducting operations in Mexico, our subsidiary Coca-Cola FEMSA conduct operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. Product sales and income from Coca-Cola FEMSA's combined non-Mexican operations have increased as a percentage of their consolidated

Table of Contents

product sales and income from operations from 42.8% and 29.5%, respectively, in 2005 to 64.2% and 56.8%, respectively, in 2009. We expect this trend to continue in future periods. As a consequence, Coca-Cola FEMSA's future results will be increasingly affected by the economic and political conditions in the countries, other than Mexico, where it conducts operations.

Consumer demand, preferences, real prices and the costs of raw materials are heavily influenced by macroeconomic and political conditions in the other countries in which Coca-Cola FEMSA operates. These conditions vary by country and may not be correlated to conditions in Mexican operations. For example, Brazil and Colombia have a history of economic volatility and political instability. In Venezuela, Coca-Cola FEMSA faces exchange rate risk as well as scarcity of raw materials and restrictions with respect to the import of such materials. Deterioration in economic and political conditions in any of these countries would have an adverse effect on Coca-Cola FEMSA's financial position and results of operations.

Depreciation of the local currencies of the countries in which Coca-Cola FEMSA operates against the U.S. dollar may increase its operating costs. Coca-Cola FEMSA has also operated under exchange controls in Venezuela since 2003 that affect the ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price paid for raw materials and services purchased in local currency. In January 2010, the Venezuelan government announced a devaluation of its official exchange rates and the establishment of a multiple exchange rate system of (1) 2.60 bolivars to US\$ 1.00 for high priority categories (2) 4.30 bolivars to US\$ 1.00 for non-priority categories and (3) the recognition of the existence of other exchange rates that the government shall determine. Coca-Cola FEMSA expects this devaluation will have an adverse impact on its financial results, by increasing operating costs and by reducing the Mexican peso amounts from its Venezuelan operations reported in its financial statements as a result of the translation accounting rules under Mexican Financial Reporting Standards. The exchange rate that will be used to translate our financial statements as of January 2010 will be 4.30 bolivars per U.S. dollar. As of December 31, 2009, the financial statements were translated to Mexican pesos using the exchange rate of 2.15 bolivars per U.S. dollar. As a result of this devaluation, the balance sheet of the Venezuelan subsidiary will reflect a reduction in shareholders' equity of approximately Ps. 3,700 million, which was accounted for in January 2010.

Future currency devaluation or the imposition of exchange controls in any of the countries in which Coca-Cola FEMSA has operations would have an adverse effect on its financial position and results of operations.

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

FEMSA Comercio

Competition from other retailers in Mexico could adversely affect FEMSA Comercio's business.

The Mexican retail sector is highly competitive. FEMSA participates in the retail sector primarily through FEMSA Comercio. FEMSA Comercio's OXXO convenience stores face competition on a regional basis from 7-Eleven, Super Extra, which is owned and managed by Grupo Modelo, our main competitor in the Mexican beer market, Super City, AM/PM and Circle K stores. OXXO convenience stores also face competition from numerous small chains of retailers across Mexico. In the future, OXXO stores may face additional competition from other retailers that do not currently participate in the convenience store sector or from new market entrants. Increased competition may limit the number of new locations available to FEMSA Comercio and require FEMSA Comercio to modify its product offering or pricing. In addition, consumers may prefer alternative products or store formats offered by competitors. As a result, FEMSA Comercio's results of operations and financial position may be adversely affected by competition in the future.

Table of Contents

Sales of OXXO convenience stores may be adversely affected by changes in economic conditions in Mexico.

Convenience stores often sell certain products at a premium. The convenience store market is thus highly sensitive to economic conditions, since an economic slowdown is often accompanied by a decline in consumer purchasing power, which in turn results in a decline in the overall consumption of FEMSA Comercio's main product categories. During periods of economic slowdown, OXXO stores may experience a decline in traffic per store and purchases per customer, and this may result in a decline in FEMSA Comercio's results of operations.

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

FEMSA Comercio increased the number of OXXO stores at an average annual rate of 15.4% from 2005 to 2009. The growth in the number of OXXO stores has driven growth in total revenue and operating income at FEMSA Comercio over the same period. As the overall number of stores increases, percentage growth in the number of OXXO stores is likely to decrease. In addition, as convenience store penetration in Mexico grows, the number of viable new store locations may decrease, and new store locations may be less favorable in terms of same store sales, average ticket and store traffic. As a result, FEMSA Comercio's future results of operations and financial condition may not be consistent with prior periods and may be characterized by lower growth rates in terms of total revenue and operating income. In Colombia, FEMSA Comercio may not be able to maintain similar historic growth rates to those in Mexico.

Risks Related to Our Holding of Heineken Shares

As required in this annual report, any financial and operating information presented in relation to FEMSA Cerveza is for the periods ended on December 31, 2009, 2008 and 2007, when we had control over this segment. See Item 5. Operating and Financial Review and Prospects' Recent Developments. The risk factors below reflect the closing of the Heineken transaction on April 30, 2010.

FEMSA will not control Heineken's decisions.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group, which we refer to as the Heineken transaction. See Item 5. Operating and Financial Review and Prospects' Recent Developments. As a consequence of the Heineken transaction, FEMSA will participate in the Heineken Holding Board and in the Heineken Supervisory Board. However, FEMSA will not be a majority or controlling shareholder of Heineken, nor will we control the decisions of the Heineken Holding Board or the Heineken Supervisory Board. Therefore, the decisions made by the majority or controlling shareholders of Heineken or the Heineken Holding Board or the Heineken Supervisory Board may not be consistent with or may not consider the interests of FEMSA's shareholders or may be adverse to the interests of FEMSA's shareholders. Additionally, FEMSA will not disclose non-public information and decisions taken by Heineken.

Heineken is present in several markets at the global level.

With respect to the beer industry, FEMSA is present in several markets at the global level. As a consequence of the Heineken transaction, FEMSA shareholders are indirectly exposed to the political, economic and social circumstances affecting the markets in which Heineken is present, which may have an adverse effect on the value of FEMSA's interest in Heineken, and, consequently, the value of FEMSA shares.

Strengthening of the Mexican peso.

FEMSA exchanged an investment in the shares in a Mexican company the operating currency of which is the same as the consolidated entity for an investment in the shares of a Dutch company the operating currency of which is the Euro (€). Therefore, in the event of an appreciation of the Mexican peso against the Euro, the fair value of FEMSA's share investment will be adversely affected.

Table of Contents

Furthermore, the cash flow that is expected to be received in the form of dividends from Heineken will be in Euros, and therefore, in the event of an appreciation of the Mexican peso against the Euro, the amount of expected cash flow once the dividends are converted into pesos (FEMSA's operating currency) will be adversely affected.

Heineken is a publicly listed company.

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

Risks Related to Our Principal Shareholders and Capital Structure

A majority of our voting shares are held by a voting trust, which effectively controls the management of our company, and whose interests may differ from those of other shareholders.

As of April 30, 2010, a voting trust, the participants of which are members of seven families, owned 38.69% of our capital stock and 74.86% of our capital stock with full voting rights, consisting of the Series B Shares. Consequently, the voting trust has the power to elect a majority of the members of our board of directors and to play a significant or controlling role in the outcome of substantially all matters to be decided by our board of directors or our shareholders. The interests of the voting trust may differ from those of our other shareholders. See Item 7. Major Shareholders and Related Party Transactions and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.

Holders of Series D-B and D-L Shares have limited voting rights.

Holders of Series D-B and D-L Shares have limited voting rights and are only entitled to vote on specific matters, such as certain changes in the form of our corporate organization, dissolution, or liquidation, a merger with a company with a distinct corporate purpose, a merger in which we are not the surviving entity, a change of our jurisdiction of incorporation, the cancellation of the registration of the Series D-B and D-L Shares and any other matters that expressly require approval from such holders under the Mexican Securities Law. As a result of these limited voting rights, Series D-B and D-L holders will not be able to influence our business or operations. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Bylaws Voting Rights and Certain Minority Rights.

Holders of ADSs may not be able to vote at our shareholder meetings.

Our shares are traded on the New York Stock Exchange, NYSE, in the form of ADSs. We cannot assure you that holders of our shares in the form of ADSs will receive notice of shareholders' meetings from our ADS depository in sufficient time to enable such holders to return voting instructions to the ADS depository in a timely manner. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depository will, subject to certain limitations, grant a proxy to a person designated by us in respect of these shares. In the event that this proxy is not granted, the ADS depository will vote these shares in the same manner as the majority of the shares of each class for which voting instructions are received.

Holders of BD Units in the United States and holders of ADSs may not be able to participate in any future preemptive rights offering and as a result may be subject to dilution of their equity interests.

Under applicable Mexican law, if we issue new shares for cash as a part of a capital increase, other than in connection with a public offering of newly issued shares or treasury stock, we are generally required to grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. We may not legally allow holders of our shares or ADSs who are located in the United States to exercise any preemptive rights in any future capital increases unless (1) we file a registration statement with the SEC with respect to that future issuance of shares or (2) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a

Table of Contents

registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

We may decide not to file a registration statement with the SEC to allow holders of our shares or ADSs who are located in the United States to participate in a preemptive rights offering. In addition, under current Mexican law, the sale by the ADS depository of preemptive rights and the distribution of the proceeds from such sales to the holders of our shares in the form of ADSs is not possible. As a result, the equity interest of holders of our shares in the form of ADSs would be diluted proportionately. See Item 10. Additional Information Bylaws Preemptive Rights.

The protections afforded to minority shareholders in Mexico are different from those afforded to minority shareholders in the United States.

Under Mexican law, the protections afforded to minority shareholders are different from, and may be less than, those afforded to minority shareholders in the United States. Mexican laws do not provide a remedy to shareholders relating to violations of fiduciary duties. There is no procedure for class actions as such actions are conducted in the United States and there are different procedural requirements for bringing shareholder lawsuits against directors for the benefit of companies. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, our directors or our controlling shareholders than it would be for minority shareholders of a United States company.

Investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

FEMSA is organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, all or a substantial portion of our assets and their respective assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States on such persons or to enforce judgments against them, including any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

Developments in other countries may adversely affect the market for our securities.

The market value of securities of Mexican companies is, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reaction to developments in one country can have effects on the securities of issuers in other countries, including Mexico. We cannot assure you that events elsewhere, especially in emerging markets, will not adversely affect the market value of our securities.

The failure or inability of our subsidiaries to pay dividends or other distributions to us may adversely affect us and our ability to pay dividends to holders of ADSs.

FEMSA is a holding company. Accordingly, FEMSA's cash flows are principally derived from dividends, interest and other distributions made to FEMSA by its subsidiaries. Currently, FEMSA's subsidiaries do not have contractual obligations that require them to pay dividends to FEMSA. In addition, debt and other contractual obligations of our subsidiaries may in the future impose restrictions on our subsidiaries' ability to make dividend or other payments to FEMSA, which in turn may adversely affect FEMSA's ability to pay dividends to shareholders and meet its debt and other obligations. As of December 31, 2009, FEMSA had no restrictions on its ability to pay dividends. Given the exchange 100% of our FEMSA Cerveza business for a 20% interest in the Heineken Group, FEMSA's non-controlling shareholder position in Heineken means that it will be unable to require payment of dividends with respect to the Heineken shares.

Table of Contents

Risks Related to Mexico and the Other Countries in Which We Operate

Adverse economic conditions in Mexico may adversely affect our financial position and results of operations.

We are a Mexican corporation, and our Mexican operations are our single most important geographic territory. Given the exchange of 100% of our FEMSA Cerveza business for a 20% interest in the Heineken Group, FEMSA shareholders may face a lesser degree of exposure with respect to economic conditions in Mexico and a greater degree of indirect exposure to the political, economic and social circumstances affecting the markets in which Heineken is present. For the year ended December 31, 2009, 64% of our consolidated total revenues were attributable to Mexico. The Mexican economy is currently experiencing a downturn as a result of the impact of the global financial crisis on many emerging economies that began in the second half of 2008. However, in the first quarter of 2010, Mexican gross domestic product, or GDP, increased by approximately 4.3% on an annualized basis compared to the same period in 2009 due to an improvement in the manufacturing and services sectors of the economy and marking the beginning of the economic recovery since the 2008 downturn. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in recovery of, the U.S. economy may hinder any recovery in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deteriorations in economic conditions that have had a negative impact on our results of operations. Given the continuing global macroeconomic downturn in 2009 and possibly 2010, which also affected the Mexican economy, we cannot assure you that such conditions will not have a material adverse effect on our results of operations and financial position.

Our business may be significantly affected by the general condition of the Mexican economy, or by the rate of inflation in Mexico, interest rates in Mexico and exchange rates for, or exchange controls affecting, the Mexican peso. Decreases in the growth rate of the Mexican economy, periods of negative growth and/or increases in inflation or interest rates may result in lower demand for our products, lower real pricing of our products or a shift to lower margin products. Because a large percentage of our costs and expenses are fixed, we may not be able to reduce costs and expenses upon the occurrence of any of these events, and our profit margins may suffer as a result.

In addition, an increase in interest rates in Mexico would increase the cost to us of variable rate debt, which constituted 53.8% of our total debt as of December 31, 2009 (including the effect of interest rate swaps), and have an adverse effect on our financial position and results of operations. During 2009, due to constraints in the international credit market and limited credit availability in the international markets, as well as changes in the currency mix of our debt, our weighted average interest rate decreased by 1.6 basis points.

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

Depreciation of the Mexican peso relative to the U.S. dollar increases the cost to us of a portion of the raw materials we acquire, the price of which is paid in or determined with reference to U.S. dollars, and of our debt obligations denominated in U.S. dollars and thereby negatively affects our financial position and results of operations. A severe devaluation or depreciation of the Mexican peso may result in disruption of the international foreign exchange markets and may limit our ability to transfer or to convert Mexican pesos into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our U.S. dollar-denominated debt or obligations in other currencies. Although the value of the Mexican peso against the U.S. dollar had been fairly stable until mid-2008, in the fourth quarter of 2008, the Mexican peso depreciated approximately 27% compared to the fourth quarter of 2007. During 2009, the Mexican peso experienced a recovery of approximately 6% compared to the year of 2008, and in the first quarter of 2010, the Mexican peso has appreciated approximately 6% compared to the fourth quarter of 2009.

While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future, as it has done in the past. Currency fluctuations may have an adverse effect on our financial position, results of operations and cash flows in future periods.

Table of Contents

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

Political events in Mexico could adversely affect our operations.

Mexican political events may significantly affect our operations. Presidential elections in Mexico occur every six years, and the most recent election occurred in July 2006. Elections of the senate also occurred in July 2006, and although the *Partido Acción Nacional* won a plurality of the seats in the Mexican congress in the election, no party succeeded in securing a majority. Elections of the *Cámara de Diputados* (House of Representatives) occurred in 2009, and although the *Partido Revolucionario Institucional* won a plurality of seats in the House of Representatives, no party succeeded in securing a majority. The absence of a clear majority by a single party is likely to continue even after the election of local, state and congress representatives in 2009. This situation may result in government gridlock and political uncertainty. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results of operations.

Insecurity in Mexico could increase and adversely affect our results.

The presence and increasing levels of violence among drug cartels, and between these and the Mexican law enforcement and armed forces, pose a risk to our business. Organized criminal activity and related violent incidents increased during 2009 and are relatively concentrated along the northern Mexican border, as well as in certain other Mexican states such as Sinaloa and Michoacán. Mexican President Felipe Calderón has acted to fight the drug cartels and has disrupted the balance of power among them. The principal driver of organized criminal activity is the drug trade that aims to supply and profit from the uninterrupted demand for drugs from the United States. This situation could impact our business because consumer habits and patterns adjust to the increased perceived and real insecurity as people refrain from going out as much and gradually shift some on-premise consumption to off-premise consumption of food and beverages on certain social occasions. Insecurity could increase and could therefore adversely affect our operational and financial results.

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

Total revenues increased in certain of our non-Mexican beverage operations at a higher rate relative to their respective Mexican operations in 2009. This higher rate of total revenue growth could result in a greater contribution to the respective results of operations for these territories, but may also expose us to greater risk in these territories as a result. The devaluation of the local currencies against the U.S. dollar in our non-Mexican territories can increase our operating costs in these countries, and depreciation of the local currencies against the Mexican peso can negatively affect our results of operations for these countries. In recent years, the value of the currency in the countries in which we operate had been relatively stable. Future currency devaluation or the imposition of exchange controls in any of these countries, including Mexico, would have an adverse effect on our financial position and results of operations.

ITEM 4. INFORMATION ON THE COMPANY

The Company

Overview

We are a Mexican company headquartered in Monterrey, Mexico, and our origin dates back to 1890. Our company was incorporated on May 30, 1936 and has a duration of 99 years. Our legal name is Fomento Económico Mexicano, S.A.B. de C.V., and in commercial contexts we frequently refer to ourselves as FEMSA. Our principal executive offices are located at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410,

Table of Contents

Mexico. Our telephone number at this location is (52-81) 8328-6000. Our website is www.femsa.com. We are organized as a *sociedad anónima bursátil de capital variable* under the laws of Mexico.

We conduct our operations through the following principal holding companies, each of which we refer to as a principal sub-holding company:

Coca-Cola FEMSA, which engages in the production, distribution and marketing of soft drinks; and

FEMSA Comercio, which operates convenience stores.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. See Item 5. Operating and Financial Review and Prospects Recent Developments and Item 10. Additional Information Material Contracts. As required in this annual report, any financial and operating information presented in relation to FEMSA Cerveza is for the periods ended on December 31, 2009, 2008 and 2007, when we had control over this segment.

Corporate Background

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

The strategic integration of our company dates back to 1936 when our packaging operations were established to supply crown caps to the brewery. During this period, these operations were part of what was known as the Monterrey Group, which also included interests in banking, steel and other packaging operations.

In 1974, the Monterrey Group was split between two branches of the descendants of the founding families of Cuauhtémoc. The steel and other packaging operations formed the basis for the creation of Corporación Siderúrgica, S.A. (later Alfa, S.A.B. de C.V.), controlled by the Garza Sada family, and the beverage and banking operations were consolidated under the FEMSA corporate umbrella, controlled by the Garza Lagüera family. FEMSA's shares were first listed on the Mexican Stock Exchange on September 19, 1978. Between 1977 and 1981, FEMSA diversified its operations through acquisitions in the soft drinks and mineral water industries, the establishment of the first convenience stores under the trade name OXXO and other investments in the hotel, construction, auto parts, food and fishing industries, which were considered non-core businesses and were subsequently divested.

In August 1982, the Mexican government suspended payment on its international debt obligations and nationalized the Mexican banking system. In 1985, certain controlling shareholders of FEMSA acquired a controlling interest in Cervecería Moctezuma, S.A., which was then Mexico's third-largest brewery and which we refer to as Moctezuma, and related companies in the packaging industry. FEMSA subsequently undertook an extensive corporate and financial restructuring that was completed in December 1988, and pursuant to which FEMSA's assets were combined under a single corporate entity, which became Grupo Industrial Emprex, S.A. de C.V., which we refer to as Emprex.

In October 1991, certain majority shareholders of FEMSA acquired a controlling interest in Bancomer, S.A., which we refer to as Bancomer. The investment in Bancomer was undertaken as part of the Mexican government's reprivatization of the banking system, which had been nationalized in 1982. The Bancomer acquisition was financed in part by a subscription by Emprex's shareholders, including FEMSA, of shares in Grupo Financiero Bancomer, S.A. de C.V. (currently Grupo Financiero BBVA Bancomer, S.A. de C.V.), which we refer to as BBVA Bancomer, the Mexican financial services holding company that was formed to hold a controlling interest in Bancomer. In February 1992, FEMSA offered Emprex's shareholders the opportunity to exchange the BBVA Bancomer shares to which they were entitled for Emprex shares owned by FEMSA. In August 1996, the shares of

Table of Contents

BBVA Bancomer that were received by FEMSA in the exchange with Emprex's shareholders were distributed as a dividend to FEMSA's shareholders.

Upon the completion of these transactions, we began a series of strategic transactions to strengthen the competitive positions of our operating subsidiaries. These transactions included the sale of a 30% strategic interest in Coca-Cola FEMSA to a wholly-owned subsidiary of The Coca-Cola Company and a subsequent public offering of Coca-Cola FEMSA shares, both of which occurred in 1993, and the sale of a 22% strategic interest in FEMSA Cerveza to Labatt Brewing Company Limited, which we refer to as Labatt, in 1994. Labatt, which was later acquired by InBev S.A., or InBev (known at the time of the acquisition of Labatt as Interbrew and currently referred to as A-B InBev), subsequently increased its interest in FEMSA Cerveza to 30%.

In 1998, we completed a reorganization that:

simplified our capital structure by converting our outstanding capital stock at the time of the reorganization into BD Units and B Units, and

united the shareholders of FEMSA and the former shareholders of Emprex at the same corporate level through an exchange offer that was consummated on May 11, 1998.

As part of the reorganization, FEMSA listed ADSs on the New York Stock Exchange representing BD Units, and listed the BD Units and its B Units on the Mexican Stock Exchange.

In May 2003, our subsidiary Coca-Cola FEMSA expanded its operations throughout Latin America by acquiring 100% of Panamco México, S.A. de C.V, which we refer to as Panamco, then the largest soft drink bottler in Latin America in terms of sales volume in 2002. Through its acquisition of Panamco, Coca-Cola FEMSA began producing and distributing *Coca-Cola* trademark beverages in additional territories in Mexico, Central America, Colombia, Venezuela and Brazil, along with bottled water, beer and other beverages in some of these territories. The Coca-Cola Company and its subsidiaries received Series D Shares in exchange for their equity interest in Panamco of approximately 25%.

On August 31, 2004, we consummated a series of transactions with InBev, Labatt and certain of their affiliates to terminate the existing arrangements between FEMSA Cerveza and Labatt. As a result of these transactions, FEMSA acquired 100% ownership of FEMSA Cerveza and previously existing arrangements among affiliates of FEMSA and InBev relating to governance, transfer of ownership and other matters with respect to FEMSA Cerveza were terminated.

On June 1, 2005, we consummated an equity offering of 80.5 million BD Units (including BD Units in the form of ADSs) and 52.78 million B units that resulted in net proceeds to us of US\$ 700 million after underwriting spreads and commissions. We used the proceeds of the equity offering to refinance indebtedness incurred in connection with the transactions with InBev, Labatt and certain of their affiliates.

On January 13, 2006, FEMSA Cerveza, through one of its subsidiaries, acquired 68% of the equity of the Brazilian brewer Kaiser from the Molson Coors Brewing Company, or Molson Coors, for US\$ 68 million. Molson Coors retained a 15% ownership stake in Kaiser, while Heineken N.V.'s ownership of 17% remained unchanged. In December 2006, Molson Coors completed its exit from Kaiser by exercising its option to sell its 15% holding to FEMSA Cerveza. On December 22, 2006, FEMSA Cerveza made a capital increase of US\$ 200 million in Kaiser. At the time, Heineken N.V. elected not to participate in the increase, thereby diluting its 17% interest in Kaiser to 0.17%, and FEMSA Cerveza thereby increasing its stake to 99.83% of the equity of Kaiser, however, in August 2007, FEMSA Cerveza and Heineken N.V. closed a stock purchase agreement whereby Heineken N.V. purchased the shares necessary to regain its 17% interest in Kaiser. As a result of this transaction, FEMSA Cerveza obtained ownership of 83% of Kaiser and Heineken N.V. obtained ownership of 17%.

On November 3, 2006, we acquired from certain subsidiaries of The Coca-Cola Company 148,000,000 Series D shares of Coca-Cola FEMSA, representing 8.02% of the total outstanding stock of Coca-Cola FEMSA. We acquired these shares at a price of US\$ 2.888 per share, or US\$ 427.4 million in the aggregate, pursuant to a

Table of Contents

Memorandum of Understanding with The Coca-Cola Company. As of June 18, 2010, FEMSA indirectly owns 53.7% of the capital stock of Coca-Cola FEMSA (63.0% of its capital stock with full voting rights) and The Coca-Cola Company indirectly owns 31.6% of the capital stock of Coca-Cola FEMSA (37.0% of its capital stock with full voting rights). The remaining 14.7% of its capital consists of Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and on the New York Stock Exchange in the form of ADSs under the trading symbol KOF.

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

On November 8, 2007, Administración, S.A.P.I. de C.V., or Administración S.A.P.I., a Mexican company owned directly or indirectly by Coca-Cola FEMSA and by The Coca-Cola Company, acquired 58,350,908 shares representing 100% of the shares of the capital stock of Jugos del Valle, for US\$ 370 million in cash, with assumed liabilities of US\$ 86 million. On June 30, 2008, Administración S.A.P.I. and Jugos del Valle merged, and Jugos del Valle became the surviving entity. Subsequent to the initial acquisition of Jugos del Valle, Coca-Cola FEMSA offered to sell 30% of its interest in Administración S.A.P.I. to other Coca-Cola bottlers in Mexico. As of December 31, 2009 and 2008, Coca-Cola FEMSA has a recorded investment of 19.8% of the capital stock of Jugos del Valle. In December 2008, the surviving Jugos del Valle entity sold its operations to The Coca-Cola Company, Coca-Cola FEMSA and other bottlers of *Coca-Cola* trademark brands in Brazil. These still beverage operations were integrated into a joint business with The Coca-Cola Company in Brazil. Through Coca-Cola FEMSA's joint ventures with The Coca-Cola Company, we distribute the Jugos del Valle line of juice-based beverages and have begun to develop and distribute new products.

On April 22, 2008, FEMSA shareholders approved a proposal to amend our bylaws in order to preserve the unit structure for our shares that has been in place since May 1998, and to maintain our existing share structure beyond May 11, 2008. Our bylaws previously provided that on May 11, 2008 our Series D-B Shares would convert into Series B Shares and our Series D-L Shares would convert into Series L Shares with limited voting rights. In addition, our bylaws provided that on May 11, 2008, our current unit structure would cease to exist and each of our B Units would be unbundled into five Series B Shares, while each BD Unit would unbundle into three Series B Shares and two newly issued Series L Shares. Following the April 22, 2008, shareholder approvals, the automatic conversion of our share and unit structures no longer exist, and, absent shareholder action, our share structure will continue to be comprised of Series B Shares, which must represent not less than 51% of our outstanding capital stock, and Series D-B and Series D-L Shares, which together may represent up to 49% of our outstanding capital stock. Our Unit structure, absent shareholder action, will continue to consist of B Units, which bundle five Series B Shares, and BD Units, which bundle one Series B Share, two Series D-B Shares and two Series D-L Shares. See Item 9. The Offer and Listing Description of Securities.

In May 2008, Coca-Cola FEMSA completed its acquisition of REMIL in Brazil for US\$ 364.1 million, net of cash received, and assumed liabilities of US\$ 196.9 million. In connection with the acquisition, Coca-Cola FEMSA identified intangible assets of indefinite life of US\$ 224.7 million.

On January 11, 2010, FEMSA announced that its Board of Directors unanimously approved a definitive agreement under which FEMSA would exchange its FEMSA Cerveza business for a 20% economic interest in Heineken, one of the world's leading brewers. The principal terms of the Heineken transaction documents are summarized below in Item 10. Additional Information Material Contracts.

On March 10, 2010, FEMSA announced that subsidiaries of FEMSA signed an agreement with subsidiaries of The Coca-Cola Company to amend the shareholders agreement for Coca-Cola FEMSA. The main purpose of the amendment is to set forth that the appointment and compensation of the chief executive officer and all officers reporting to the chief executive officer, as well as the adoption of decisions related to the ordinary operations of Coca-Cola FEMSA, shall only require a simple majority vote of the board of directors. Decisions related to extraordinary matters (such as business acquisitions or combinations in an amount exceeding US\$ 100 million, among others) shall continue to require the vote of the majority of the board of directors, including the affirmative

Table of Contents

vote of two of the board members appointed by The Coca-Cola Company. The amendment was approved at Coca-Cola FEMSA's extraordinary shareholders meeting on April 14, 2010, and is reflected in the by-laws of Coca-Cola FEMSA. This amendment was signed without transfer of any consideration. The percentage of our voting interest in our subsidiary Coca-Cola FEMSA remains the same after the signing of this amendment.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in Item 10. Additional Information Material Contracts.

Table of Contents

Ownership Structure

We conduct our business through our principal sub-holding companies as shown in the following diagram and table:

Principal Sub-holding Companies⁽¹⁾ Ownership Structure

As of April 30, 2010

- (1) On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group.
- (2) Compañía Internacional de Bebidas, S.A. de C.V., which we refer to as CIBSA.
- (3) Grupo Industrial Emprex, S.A. de C.V.
- (4) Percentage of capital stock, equal to 63.0% of capital stock with full voting rights.

Table of Contents

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

Operations by Segment Overview**Year Ended December 31, 2009 and % of growth vs. last year⁽¹⁾**

	Coca-Cola FEMSA		FEMSA Cerveza		FEMSA Comercio	
	(in millions of Mexican pesos, except for employees and percentages)					
Total revenues	Ps. 102,767	23.9%	Ps. 46,336	9.3%	Ps. 53,549	13.6%
Income from operations	15,835	15.6	5,894	9.3	4,457	44.8
Total assets	110,661	13.0	72,029	6.2	19,693	14.6
Employees	67,426	3.7	24,741 ⁽²⁾	(4.9)	23,473	7.7

Total Revenues Summary by Segment⁽¹⁾

	Year Ended December 31,		
	2009	2008	2007
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	102,767	Ps. 82,976	Ps. 69,251
FEMSA Cerveza	46,336	42,385	39,566
FEMSA Comercio	53,549	47,146	42,103
Other	12,302	9,401	8,124
Consolidated total revenues	197,033	Ps. 168,022	Ps. 147,556

Total Revenues Summary by Geographic Region⁽³⁾

	Year Ended December 31,		
	2009	2008	2007
	(in millions of Mexican pesos)		
Mexico ⁽⁴⁾	Ps. 126,872	Ps. 114,640	Ps. 106,136
Latincentro ⁽⁵⁾	16,211	12,853	11,901
Venezuela	22,448	15,217	9,792
Mercosur ⁽⁶⁾	32,362	25,755	20,127
Consolidated total revenues	197,033	Ps. 168,022	Ps. 147,556

(1) The sum of the financial data for each of our segments and percentages with respect thereto differ from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation, and certain assets and activities of FEMSA.

(2) Includes employees of third-party distributors.

(3) The sum of the financial data for each geographic region differs from our consolidated financial information due to intercompany transactions, which are eliminated in consolidation.

- (4) Includes export sales.
- (5) Includes Guatemala, Nicaragua, Costa Rica, Panama and Colombia.
- (6) Includes Brazil and Argentina.

Table of Contents**Significant Subsidiaries**

The following table sets forth our significant subsidiaries as of April 30, 2010:

Name of Company	Jurisdiction of Establishment	Percentage Owned
CIBSA	Mexico	100.0%
Coca-Cola FEMSA⁽¹⁾	Mexico	53.7%
Propimex, S.A. de C.V.	Mexico	53.7%
Controladora Interamericana de Bebidas, S.A. de C.V.	Mexico	53.7%
Coca-Cola FEMSA de Venezuela, S.A. (formerly, Panamco Venezuela, S.A. de C.V.)	Venezuela	53.7%
Spal Industria Brasileira de Bebidas, S.A.	Brazil	52.5%
FEMSA Comercio	Mexico	100.0%

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

Business Strategy

We are a consumer-focused company that strives to combine world-class execution with leading brands. Our soft drink operation, Coca-Cola FEMSA, is the largest bottler of Coca-Cola products in Latin America, and the second largest in the world, measured in terms of sales volumes in 2009. Our convenience store chain OXXO is the largest in Mexico with a total of 7,492 stores as of March 31, 2010 and a significant growth driver in its own right.

We understand the importance of connecting with our end consumers by interpreting their needs, and ultimately delivering the right products to them for the right occasions and the optimal value proposition. We strive to achieve this by developing brand value, expanding our significant distribution capabilities, and improving the efficiency of our operations while aiming to reach our full potential. We continue to improve our information gathering and processing systems in order to better know and understand what our consumers want and need, and we are improving our production and distribution by more efficiently leveraging our asset base.

We believe that the competencies that our businesses have developed can be replicated in other geographic regions. This underlying principle guided our consolidation efforts, which culminated in Coca-Cola FEMSA's acquisition of Panamco on May 6, 2003. The continental platform that this combination produced encompassing a significant territorial expanse in Mexico and Central America, including some of the most populous metropolitan areas in Latin America has provided us with opportunities to create value through both an improved ability to execute our strategies and the use of superior marketing tools. As we increase our capabilities to operate and succeed in other geographic regions, by developing an understanding of local consumer needs and trends, we can use those capabilities to drive the international expansion of OXXO as well.

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

Coca-Cola FEMSA**Overview**

Coca-Cola FEMSA is the largest bottler of *Coca-Cola* trademark beverages in Latin America, and the second largest in the world, calculated in each case by sales volume in 2009. Coca-Cola FEMSA operates in the following territories:

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

Table of Contents

Central America Guatemala (Guatemala City and surrounding areas), Nicaragua (nationwide), Costa Rica (nationwide) and Panama (nationwide).

Colombia most of the country.

Venezuela nationwide.

Argentina Buenos Aires and surrounding areas.

Brazil the area of greater São Paulo, Campinas, Santos, the state of Mato Grosso do Sul, the state of Minas Gerais and part of the state of Goiás.

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

The following is an overview of Coca-Cola FEMSA's operations by segment in 2009:

Operations by Segment Overview

Year Ended December 31, 2009⁽¹⁾

	Total Revenues	Percentage of Total Revenues	Income from Operations	Percentage of Income from Operations
Mexico	36,785	36%	6,849	43%
Latincentro ⁽²⁾	15,993	15%	2,937	19%
Venezuela	22,430	22%	1,815	11%
Mercosur ⁽³⁾	27,559	27%	4,234	27%
Consolidated	102,767	100%	15,835	100%

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

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

(3) Includes Brazil and Argentina.

Corporate History

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

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

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

Table of Contents

During August 2004, Coca-Cola FEMSA conducted a rights offering to allow existing holders of its Series L Shares and ADSs to acquire newly-issued Series L Shares in the form of Series L Shares and ADSs, respectively, at the same price per share at which ourselves and The Coca-Cola Company subscribed in connection with the Panamco acquisition. On March 8, 2006, its shareholders approved the non-cancellation of the 98,684,857 Series L Shares (equivalent to approximately 9.87 million ADSs, or over one-third of the outstanding Series L Shares) that were not subscribed for in the rights offering which are available for issuance at an issuance price of no less than US\$ 2.216 per share or its equivalent in Mexican currency.

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

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

In December 2008, Jugos del Valle sold its Brazilian operations, Holdinbrás, Ltd. to a subsidiary of The Coca-Cola Company, Coca-Cola FEMSA and other bottlers of *Coca-Cola* trademark brands in Brazil. These operations were integrated into the Sucos Mais business, a joint venture with The Coca-Cola Company in Brazil.

On May 30, 2008, Coca-Cola FEMSA entered into a transaction with The Coca-Cola Company to acquire its wholly-owned bottling territory, REMIL, located in the State of Minas Gerais in Brazil. During the second quarter of 2008, Coca-Cola FEMSA closed this transaction for US\$ 364.1 million. Coca-Cola FEMSA consolidates REMIL in its financial statements as of June 1, 2008.

In December 2007 and May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company for a total amount of US\$ 64 million. Both of these transactions were conducted on an arm's length basis. These trademarks are now being licensed to Coca-Cola FEMSA by The Coca-Cola Company subject to existing bottler agreements.

In July 2008, Coca-Cola FEMSA acquired Agua de los Angeles, S.A. de C.V. (Agua de los Angeles), a jug water business in the Valley of Mexico, from Grupo Embotellador CIMSA S.A. de C.V., one of the Coca-Cola bottlers in Mexico, for US\$ 18.3 million. The trademarks remain with The Coca-Cola Company. Coca-Cola FEMSA subsequently merged Agua de los Angeles into its jug water business under the *Ciel* brand.

In February 2009, Coca-Cola FEMSA completed the transaction with Bavaria, a subsidiary of SABMiller, to jointly acquire with The Coca-Cola Company the *Brisa* bottled water business (including the *Brisa* brand). The purchase price of US\$ 92 million was shared equally by Coca-Cola FEMSA and The Coca-Cola Company. Following a transition period, in June 2009, Coca-Cola FEMSA began to sell and distribute the *Brisa* portfolio of products in Colombia.

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

As of June 18, 2010, we indirectly owned Series A Shares equal to 53.7% of Coca-Cola FEMSA capital stock (63.0% of its capital stock with full voting rights). As of June 18, 2010, The Coca-Cola Company indirectly owned Series D Shares equal to 31.6% of the capital stock of Coca-Cola FEMSA (37% of Coca-Cola FEMSA's capital stock with full voting rights). Series L Shares with limited voting rights, which trade on the Mexican Stock Exchange and in the form of ADSs on the New York Stock Exchange, constitute the remaining 14.7% of Coca-Cola FEMSA's capital stock.

Table of Contents

Business Strategy

Coca-Cola FEMSA is the largest bottler of *Coca-Cola* trademark beverages in Latin America in terms of total sales volume in 2009, with operations in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Argentina and Brazil. While its corporate headquarters are in Mexico City, it has established divisional headquarters in the following three regions:

Mexico with headquarters in Mexico City;

Latincentro (covering territories in Guatemala, Nicaragua, Costa Rica, Panama, Colombia and Venezuela) with headquarters in San José, Costa Rica; and

Mercosur (covering territories in Argentina and Brazil) with headquarters in São Paulo, Brazil.

Coca-Cola FEMSA seeks to provide its shareholders with an attractive return on their investment by increasing its profitability. The key factors in achieving increased revenues and profitability are (1) implementing multi-segmentation strategies in its major markets to target distinct market clusters divided by consumption occasion, competitive intensity and socioeconomic levels; (2) implementing well-planned product, packaging and pricing strategies through different distribution channels; and (3) driving product innovation along its different product categories and (4) achieving operational efficiencies throughout its company. To achieve these goals Coca-Cola FEMSA continues to focus its efforts on, among other initiatives, the following:

working with The Coca-Cola Company to develop a business model to continue exploring and participating in new lines of beverages, extending existing product lines and effectively advertising and marketing its products;

developing and expanding its still beverage portfolio through strategic acquisitions and by entering into joint ventures with The Coca-Cola Company;

expanding its bottled water strategy, in conjunction with The Coca-Cola Company through innovation and selective acquisitions to maximize its profitability across its market territories;

strengthening its selling capabilities and go-to-market strategies, including pre-sale, conventional selling and hybrid routes, in order to get closer to its clients and help them satisfy the beverage needs of consumers;

implementing packaging strategies designed to increase consumer demand for its products and to build a strong returnable base for the *Coca-Cola* brand selectively;

replicating its best practices throughout the whole value chain;

rationalizing and adapting its organizational and asset structure in order to be in a better position to respond to a changing competitive environment;

committing to building a multi-cultural collaborative team, from top to bottom; and

broadening its geographical footprint through organic growth and strategic acquisitions.

Coca-Cola FEMSA seeks to increase per capita consumption of its products in the territories in which it operates. To that end, its marketing teams continuously develop sales strategies tailored to the different characteristics of its various territories and distribution channels. Coca-Cola FEMSA continues to develop its product portfolio to better meet market demand and maintain its overall profitability. To stimulate and respond to consumer demand, it continues to introduce new products and new presentations. See Product and Packaging Mix. It also seeks to increase placement of coolers, including promotional displays, in retail outlets to showcase

Table of Contents

and promote its products. In addition, because it views its relationship with The Coca-Cola Company as integral to its business, it uses market information systems and strategies developed with The Coca-Cola Company to improve its business and marketing strategies. See Marketing Channel Marketing.

In each of its facilities, Coca-Cola FEMSA seeks to increase productivity in its facilities through infrastructure and process reengineering for improved asset utilization. Its capital expenditure program includes investments in production and distribution facilities, bottles, cases, coolers and information systems. Coca-Cola FEMSA believes that this program will allow it to maintain its capacity and flexibility to innovate and to respond to consumer demand for its non-alcoholic beverages.

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

Table of Contents

Coca-Cola FEMSA's Territories

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

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

Table of Contents**Coca-Cola FEMSA's Products**

Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages, proprietary brands and brands licensed from us. The *Coca-Cola* trademark beverages include: sparkling beverages (colas and flavored sparkling beverages); water; and still beverages (including juice drinks, ready-to-drink teas and isotonic). In December 2007 and May 2008, Coca-Cola FEMSA sold most of its proprietary brands to The Coca-Cola Company. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Business Transactions between Coca-Cola FEMSA and The Coca-Cola Company.

<i>Colas:</i>	Mexico	Latincentro ⁽¹⁾	Venezuela	Mercosur ⁽²⁾
<i>Coca-Cola</i>	ü	ü	ü	ü
<i>Coca-Cola light</i>	ü	ü	ü	ü
<i>Coca-Cola Zero</i>	ü	ü	ü	ü
<i>Flavored Soft Drinks:</i>	Mexico	Latincentro ⁽¹⁾	Venezuela	Mercosur ⁽²⁾
<i>Aquarius Fresh</i>				ü
<i>Chinotto</i>			ü	
<i>Crush</i>		ü		ü
<i>Fanta</i>	ü	ü		ü
<i>Fresca</i>	ü	ü		
<i>Frescolita</i>		ü	ü	
<i>Hit</i>			ü	
<i>Kuat</i>				ü
<i>Lift</i>	ü	ü		
<i>Mundet⁽³⁾</i>	ü			
<i>Quatro</i>		ü		ü
<i>Simba</i>				ü
<i>Sprite</i>	ü	ü		ü
<i>Water:</i>	Mexico	Latincentro ⁽¹⁾	Venezuela	Mercosur ⁽²⁾
<i>Alpina</i>		ü		
<i>Brisa</i>		ü		
<i>Ciel</i>	ü			
<i>Crystal</i>				ü
<i>Kin</i>				ü
<i>Manantial</i>		ü		
<i>Nevada</i>			ü	
<i>Santa Clara⁽⁴⁾</i>		ü		ü
<i>Other Categories:</i>	Mexico	Latincentro ⁽¹⁾	Venezuela	Mercosur ⁽²⁾
<i>Aquarius</i>				ü
<i>Dasani⁽⁵⁾</i>		ü		ü
<i>Hi-C⁽⁶⁾</i>		ü		
<i>Jugos del Valle⁽⁶⁾</i>	ü	ü		ü
<i>Nestea</i>	ü	ü	ü	
<i>Powerade⁽⁷⁾</i>	ü	ü	ü	ü

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

(2) Includes Brazil and Argentina.

(3) Brand licensed from FEMSA.

- (4) Proprietary brand.
- (5) Flavored water. In Argentina, also as still water.
- (6) Juice-based beverage. Includes ValleFrut in Mexico and Fresh in Colombia.
- (7) Isotonic.

Table of Contents**Sales Overview**

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

	Sales Volume		
	Year Ended December 31,		
	2009	2008	2007
	(millions of unit cases)		
Mexico	1,227.2	1,149.0	1,110.4
Latincentro			
Central America ⁽¹⁾	135.8	132.6	128.1
Colombia ⁽²⁾	232.2	197.9	197.8
Venezuela	225.2	206.7	209.0
Mercosur			
Argentina	184.1	186.0	179.4
Brazil ⁽³⁾	424.1	370.6	296.1
Combined Volume	2,428.6	2,242.8	2,120.8

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

(2) As of June 1, 2009, includes sales from the *Brisa* bottled water business.

(3) Excludes beer sales volume. As of June 1, 2008, includes sales from REMIL.

Product and Packaging Mix

Out of the more than 100 brands and line extensions of beverages sold and distributed by Coca-Cola FEMSA, their most important brand, *Coca-Cola*, together with its line extensions, *Coca-Cola light*, *Coca-Cola Zero* and *Coca-Cola light caffeine free*, accounted for 61.4% of total sales volume in 2009. Coca-Cola FEMSA's next largest brands, *Ciel* (a water brand from Mexico), *Fanta* (and its line extensions), *Sprite* (and its line extensions), *ValleFrut* and *Hit*, accounted for 10.5%, 5.8%, 2.6%, 1.5% and 1.3%, respectively, of total sales volume in 2009. Coca-Cola FEMSA uses the term line extensions to refer to the different flavors in which it offers its brands. Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages in each of its territories in containers authorized by The Coca-Cola Company, which consist of a variety of returnable and non-returnable presentations in the form of glass bottles, cans and plastic bottles made of polyethylene terephthalate, which it refers to as PET.

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

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

Table of Contents

sparkling beverages. In Venezuela, Coca-Cola FEMSA faces operational disruptions from time to time, including interruptions in energy supply. In 2009, although its sparkling beverages volume increased, per capita consumption of Coca-Cola FEMSA's products has remained stable due to such short-term operating disruptions.

The following discussion analyzes Coca-Cola FEMSA's product and packaging mix by segment. The volume data presented is for the years 2009, 2008 and 2007.

Mexico. Coca-Cola FEMSA's product portfolio consists of *Coca-Cola* trademark beverages, and since 2001 has included Mundet trademark beverages licensed from FEMSA in some Mexican territories. In 2007, as part of its efforts to strengthen the *Coca-Cola* brand it launched *Coca-Cola Zero*, a line extension of the *Coca-Cola* brand. Sparkling beverage per capita consumption of its products in its Mexican territories in 2009 was 436 eight-ounce servings.

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

	Year Ended December 31,		
	2009	2008	2007
	(millions of unit cases)		
Product Sales Volume			
Total	1,227.2	1,149.0	1,110.4
% Growth	6.8%	3.5%	3.7%
	(in percentages)		
Unit Case Volume Mix by Category			
Sparkling beverages	73.4%	75.4%	78.3%
Water ⁽¹⁾	21.5%	21.6%	20.7
Still beverages	5.1%	3.0%	1.0
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volume.

Coca-Cola FEMSA's most popular sparkling beverage presentations were the 2.5-liter returnable plastic bottle, the 0.6-liter non-returnable plastic bottle (the 20-ounce bottle that is also popular in the United States) and the 2.5-liter non-returnable plastic bottle, which together accounted for 56.7% of total sparkling beverage sales volume in Mexico in 2009. In 2009, multiple serving presentations represented 66.9% of total sparkling beverages sales volume in Mexico, a 7.7% growth compared to 2008. Coca-Cola FEMSA's commercial strategy is to foster consumption in single serving presentations while maintaining multiple serving volumes. In 2009, its sparkling beverages decreased as a percentage of its total sales volume from 75% in 2008 to 73.4% in 2009, mainly due to the introduction of the Jugos del Valle line of products.

Total sales volume reached 1,227.2 million unit cases in 2009, an increase of 6.8% compared to 1,149.0 million unit cases in 2008. The still beverage category accounted for approximately 37% of the total incremental volumes during the year. Still beverage growth was mainly driven by the introduction of the Jugos del Valle line of products, especially ValleFrut.

Latincentro (Colombia and Central America). Coca-Cola FEMSA's product sales in Latincentro consist predominantly of *Coca-Cola* trademark beverages. Per capita consumption of its sparkling beverages products in Colombia and Central America was 92 and 146 eight-ounce servings, respectively, in 2009.

Table of Contents

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

	Year Ended December 31,		
	2009	2008	2007
(millions of unit cases)			
Product Sales Volume			
Total	368.0	330.5	325.9
% Growth	11.3%	1.4%	4.7%
(in percentages)			
Unit Case Volume Mix by Category			
Sparkling beverages	79.3%	87.9%	88.5%
Water ⁽¹⁾	13.0%	7.7%	8.3%
Still beverages	7.7%	4.4%	3.2%
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volume.

In 2009, multiple serving presentations as a percentage of total sparkling beverage sales volume, represented 56.7% in Central America and 58.3% in Colombia. In 2008, as part of its efforts to strengthen the Coca-Cola brand, Coca-Cola FEMSA launched *Coca-Cola Zero*, a line extension of the *Coca-Cola* brand in Colombia. The acquisition of *Brisa* in 2009 helped Coca-Cola FEMSA to become leader, based on sales volume, in the water market in Colombia.

Total sales volume was 368.0 million unit cases in 2009, increasing 11.3% compared to 330.5 million in 2008. Water sales, including bulk water, represented approximately 60% of total incremental volume, mainly driven by the integration of the *Brisa* bottled water business in Colombia. Still beverages represented the majority of the balance, mainly driven by the introduction of the of the Jugos del Valle line of products. See The Company Corporate Background.

Venezuela. Coca-Cola FEMSA's product portfolio in Venezuela consists of *Coca-Cola* trademark beverages. Sparkling beverages per capita consumption of its products in Venezuela during 2009 was 174 eight-ounce servings.

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

	Year Ended December 31,		
	2009	2008	2007
(millions of unit cases)			
Product Sales Volume			
Total	225.2	206.7	209.0
% Growth	9.0%	(1.1)%	14.5%
(in percentages)			
Unit Case Volume Mix by Category			
Sparkling beverages	91.7%	91.3%	90.4%
Water ⁽¹⁾	5.7%	5.8%	5.7
Still beverages	2.6%	2.9%	3.9
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volume.

During 2009, Coca-Cola FEMSA continued facing periodic operating difficulties that prevented it from producing and distributing to satisfy market demand for its products. Coca-Cola FEMSA implemented a product portfolio rationalization strategy to minimize the impact of these disruptions, which led to an increase in sales in 2009 as compared to 2008. Coca-Cola FEMSA's sparkling beverage volume grew 9.4% mainly driven by flavored sparkling beverages.

Table of Contents

In 2009, multiple serving presentations represented 77.2% of total sparkling beverages sales volume in Venezuela. Total sales volume was 225.2 million unit cases in 2009, an increase of 9.0% compared to 206.7 million in 2008.

Mercosur (Brazil and Argentina). Coca-Cola FEMSA's product portfolio in Mercosur consists mainly of *Coca-Cola* trademark beverages and the *Kaiser* beer brand in Brazil, which Coca-Cola FEMSA sells and distributes on behalf of FEMSA Cerveza. Sparkling beverages per capita consumption of its products in Brazil and Argentina was 214 and 359 eight-ounce servings, respectively, in 2009.

The following table highlights historical total sales volume and sales volume mix in Mercosur, not including beer:

	Year Ended December 31,		
	2009	2008	2007
(millions of unit cases)			
Product Sales Volume			
Total	608.2	556.6	475.5
% Growth	9.3%	17.1%	9.6%
(in percentages)			
Unit Case Volume Mix by Category			
Sparkling beverages	92.0%	93.3%	93.5%
Water ⁽¹⁾	4.1	4.2	4.5
Still beverages	3.9	2.5	2.0
Total	100.0%	100.0%	100.0%

(1) Includes bulk water volume.

Beginning in June 2008, Coca-Cola FEMSA integrated the bottling franchise of REMIL in the State of Minas Gerais into its existing Brazilian operations. REMIL contributed 44.2 million unit cases of beverages to Coca-Cola FEMSA's sales volume during the first five months of 2009. Sparkling beverages represented approximately 95% of this volume. In 2008, in its continued effort to develop the still beverage category in Argentina, Coca-Cola FEMSA launched Aquarius, a flavored water.

Total sales volume was 608.2 million unit cases in 2009, an increase of 9.3% compared to 556.6 million in 2008. Excluding REMIL, total sales volume increased 1.3%. Growth in still beverages driven by sales of Aquarius in Argentina, accounted for most of the growth during the year. In 2009, returnable packaging, as a percentage of total sparkling beverage sales volume, accounted for 28.5% in Argentina and 12.4% in Brazil. In 2009, multiple serving presentations represented 70.8% and 85.5% of total sparkling beverages sales volume in Brazil and Argentina, respectively.

Coca-Cola FEMSA primarily purchases its glass bottles in Mexico from SIVESA, a wholly-owned subsidiary of FEMSA Cerveza. The aggregate amount of our purchases from SIVESA amounted to Ps. 355.1 million, Ps. 408.5 million and Ps. 331.9 million in 2009, 2008 and 2007, respectively.

Coca-Cola FEMSA sells and distributes the *Kaiser* brands of beer in its territories in Brazil. In January 2006, FEMSA Cerveza acquired a controlling stake in Cervejarias Kaiser. Since that time, Coca-Cola FEMSA has distributed the Kaiser beer portfolio in Coca-Cola FEMSA's Brazilian territories, consistent with the arrangements between Coca-Cola FEMSA and Cervejarias Kaiser in place prior to 2004. Beginning with the second quarter of 2005, Coca-Cola FEMSA ceased including beer that it distributes in Brazil in its reported sales volumes. On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. Coca-Cola FEMSA has agreed with Cervejarias Kaiser to continue to distribute and sell the Kaiser beer portfolio in Coca-Cola FEMSA's Brazilian territories through the 20-year term, consistent with the arrangement in place since 2006.

Table of Contents

Recent Acquisition

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

Seasonality

Sales of Coca-Cola FEMSA's products are seasonal, as its sales levels generally increase during the summer months of each country and during the Christmas holiday season. In Mexico, Central America, Colombia and Venezuela, Coca-Cola FEMSA typically achieves its highest sales during the summer months of April through September as well as during the Christmas holidays in December. In Argentina and Brazil, its highest sales levels occur during the summer months of October through March and the Christmas holidays in December.

Marketing

Coca-Cola FEMSA, in conjunction with The Coca-Cola Company, has developed a marketing strategy to promote the sale and consumption of its products. Coca-Cola FEMSA relies extensively on advertising, sales promotions and retailer support programs to target the particular preferences of its soft drink consumers. Its consolidated marketing expenses in 2009, net of contributions by The Coca-Cola Company, were Ps. 3,278 million. The Coca-Cola Company contributed an additional Ps. 1,945 million in 2009, which includes contributions for coolers, bottles and cases. Through the use of advanced information technology, it has collected customer and consumer information that allows it to tailor its marketing strategies to target different types of customers located in each of its territories and to meet the specific needs of the various markets it serves.

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

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

Advertising. Coca-Cola FEMSA advertises in all major communications media. It focuses its advertising efforts on increasing brand recognition by consumers and improving its customer relations. National advertising campaigns are designed and proposed by The Coca-Cola Company's local affiliates, with Coca-Cola FEMSA's input at the local or regional level.

Channel Marketing. In order to provide more dynamic and specialized marketing of its products, Coca-Cola FEMSA's strategy is to classify its markets and develop targeted efforts for each consumer segment or distribution channel. Its principal channels are small retailers, on-premise consumption such as restaurants and bars, supermarkets and third-party distributors. Presence in these channels entails a comprehensive and detailed analysis of the purchasing patterns and preferences of various groups of soft drink consumers in each of the different types of locations or distribution channels. In response to this analysis, Coca-Cola FEMSA tailors its product, price, packaging and distribution strategies to meet the particular needs of and exploit the potential of each channel.

Coca-Cola FEMSA believes that the implementation of its channel marketing strategy also enables it to respond to competitive initiatives with channel-specific responses as opposed to market-wide responses. Coca-Cola FEMSA's channel marketing activities are facilitated by its management information systems. Coca-Cola FEMSA has invested significantly in creating these systems, including in hand-held computers to support the gathering of product, consumer and delivery information, for most of its sales routes throughout its territories.

Multi-segmentation. Coca-Cola FEMSA has been implementing a multi-segmentation strategy in the majority of its markets. This strategy consists on the implementation of different product/price/package portfolios

Table of Contents

by market cluster or group. These clusters are defined based on consumption occasion, competitive intensity and socio-economic levels, rather than solely on the types of distribution channels.

Product Distribution

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

Product Distribution Summary

as of December 31, 2009

	Mexico	Latincentro ⁽²⁾	Venezuela	Mercosur ⁽³⁾
Distribution centers	84	60	33	33
Retailers (in thousands) ⁽¹⁾	620,255	475,119	211,749	269,888

(1) Estimated.

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

(3) Includes Brazil and Argentina.

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

Coca-Cola FEMSA uses two main sales methods depending on market and geographic conditions: (1) the traditional or conventional truck route system, in which the person in charge of the delivery makes immediate sales from inventory available on the truck and (2) the pre-sale system, which separates the sales and delivery functions and allows sales personnel to sell products prior to delivery and trucks to be loaded with the mix of products that retailers have previously ordered, thereby increasing distribution efficiency. Coca-Cola FEMSA also uses a hybrid distribution system in some of its territories, where the same truck holds product available for immediate sale and product previously ordered through the pre-sale system. As part of the pre-sale system, sales personnel also provide merchandising services during retailer visits, which it believes enhance the presentation of its products at the point of sale. Coca-Cola FEMSA believes that service visits to retailers and frequency of deliveries are essential elements in an effective selling and distribution system for its products. In certain areas, Coca-Cola FEMSA also makes sales through third-party wholesalers of its products. The vast majority of its sales are for cash.

Coca-Cola FEMSA's distribution centers range from large warehousing facilities and re-loading centers to small deposit centers. In addition to its fleet of trucks, Coca-Cola FEMSA distributes its products in certain locations through a fleet of electric carts and hand-trucks in order to comply with local environmental and traffic regulations. In some of its territories, Coca-Cola FEMSA retains third parties to transport its finished products from the bottling plants to the distribution centers.

Mexico. Coca-Cola FEMSA contracts with one of our subsidiaries for the transportation of finished products to its distribution centers from its Mexican production facilities. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions. From the distribution centers, it then distributes its finished products to retailers through its own fleet of trucks.

In Mexico, Coca-Cola FEMSA sells a majority of its beverages at small retail stores to customers who take the beverages home or elsewhere for consumption. Coca-Cola FEMSA also sells products through the on-premise consumer segment, supermarkets and other locations. The on-premise consumer segment consists of sales through sidewalk stands, restaurants, bars and various types of dispensing machines as well as sales through point-of-sale programs in concert halls, auditoriums and theaters.

Table of Contents

Brazil. In Brazil, Coca-Cola FEMSA sold approximately 23% of its total sales volume through supermarkets in 2009. Also in Brazil, the delivery of its finished products to customers is by a third-party. In designated zones in Brazil, third-party distributors purchase its products at a discount from the wholesale price and resell the products to retailers.

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

Competition

Although we believe that Coca-Cola FEMSA's products enjoy wider recognition and greater consumer loyalty than those of its principal competitors, the markets in the territories in which it operates are highly competitive. Coca-Cola FEMSA's principal competitors are local bottlers of Pepsi and other bottlers and distributors of national and regional sparkling beverage brands. Coca-Cola FEMSA faces increased competition in many of its territories from producers of low price beverages, commonly referred to as B brands. A number of its competitors in Central America, Venezuela, Brazil and Argentina offer beer in addition to sparkling beverages, still beverages, and water, which may enable them to achieve distribution efficiencies.

Recently, price discounting and packaging have joined consumer sales promotions, customer service and non-price retailer incentives as the primary means of competition among bottlers. Coca-Cola FEMSA competes by seeking to offer products at an attractive price in the different segments in its markets and by building on the value of its brands. Coca-Cola FEMSA believes that the introduction of new products and new presentations has been a significant competitive technique that allows it to increase demand for its products, provide different options to consumers and increase new consumption opportunities. See Sales Overview.

Mexico. Coca-Cola FEMSA's principal competitors in Mexico are bottlers of *Pepsi* products, whose territories overlap but are not co-extensive with its own. In central Mexico Coca-Cola FEMSA competes with a subsidiary of PepsiCo, Pepsi Beverage Company, the largest bottler of Pepsi products globally, and Grupo Embotelladores Unidos, S.A.B. de C.V., the *Pepsi* bottler in central and southeast Mexico. Coca-Cola FEMSA's main competition in the juice category in Mexico is Grupo Jumex, the largest juice producer in the country. In the water category, Coca-Cola FEMSA's main competitor is *Bonafont*, a water brand owned by Groupe Danone. In addition, Coca-Cola FEMSA competes with Cadbury Schweppes in sparkling beverages and with other national and regional brands in its Mexican territories, as well as low-price producers, such as *Big Cola* and Consorcio AGA, S.A. de C.V., that principally offer multiple serving size presentations of sparkling and still beverages.

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

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

Venezuela. In Venezuela, Coca-Cola FEMSA's main competitor is Pepsi-Cola Venezuela, C.A., a joint venture formed between PepsiCo and Empresas Polar, S.A., the leading beer distributor in the country. Coca-Cola FEMSA also competes with the producers of *Big Cola* in parts of the country.

Table of Contents

Mercosur (Brazil and Argentina). In Brazil, Coca-Cola FEMSA competes against AmBev, a Brazilian company with a portfolio of brands that includes *Pepsi*, local brands with flavors such as guaraná, and proprietary beers. Coca-Cola FEMSA also competes against B brands or Tubainas, which are small, local producers of low-cost flavored sparkling beverages in multiple serving presentations that represent a significant portion of the sparkling beverage market.

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

Raw Materials

Pursuant to the bottler agreements with The Coca-Cola Company, Coca-Cola FEMSA is required to purchase concentrate and artificial sweeteners in some of its territories, for all *Coca-Cola* trademark beverages from companies designated by The Coca-Cola Company. The price of concentrate for all *Coca-Cola* trademark beverages is a percentage of the average price Coca-Cola FEMSA charges to its retailers in local currency net of applicable taxes. Although The Coca-Cola Company has the right to unilaterally set the price of concentrates, in practice this percentage has historically been set pursuant to periodic negotiations with The Coca-Cola Company.

In 2005, The Coca-Cola Company decided to gradually increase concentrate prices for sparkling beverages over a three-year period in Brazil beginning in 2006 and in Mexico beginning in 2007. These increases were fully implemented in Brazil in 2008 and in Mexico in 2009. As part of the cooperation framework that Coca-Cola FEMSA arrived at with The Coca-Cola Company at the end of 2006, The Coca-Cola Company will provide a relevant portion of the funds derived from the concentrate increase for marketing support of Coca-Cola FEMSA's sparkling and still beverages portfolio. See Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Business Transactions between Coca-Cola FEMSA and The Coca-Cola Company.

In addition to concentrate, Coca-Cola FEMSA purchases sweeteners, carbon dioxide and other raw materials, resin and ingots to make plastic bottles, finished plastic and glass bottles, cans, closures and fountain containers, as well as other packaging materials. Sweeteners are combined with water to produce basic syrup, which is added to the concentrate as the sweetener for the sparkling beverage. Coca-Cola FEMSA's bottler agreements provide that, with respect to *Coca-Cola* trademark beverages, these materials may be purchased only from suppliers approved by The Coca-Cola Company, including affiliates of FEMSA. Prices for packaging materials and high fructose corn syrup historically have been determined with reference to the U.S. dollar, although the local currency equivalent in a particular country is subject to price volatility in accordance with changes in exchange rates. Coca-Cola FEMSA's most significant packaging raw material costs arise from the purchase of resin, plastic ingots to make plastic bottles and finished plastic bottles, which it obtains from international and local producers. The prices of these materials are tied to crude oil prices and global resin supply. In recent years, Coca-Cola FEMSA has experienced volatility in the prices it pays for these materials. Across Coca-Cola FEMSA's territories, its average price for resin in U.S. dollars decreased significantly during 2009.

Under Coca-Cola FEMSA's agreements with The Coca-Cola Company, it may use raw or refined sugar or high fructose corn syrup as sweeteners in its products. Sugar prices in all of the countries in which Coca-Cola FEMSA operates, other than Brazil, are subject to local regulations and other barriers to market entry that cause it to pay in excess of international market prices for sugar in certain countries. Coca-Cola FEMSA has experienced sugar price volatility in its territories as a result of changes in local conditions and regulations and, in 2009, mainly due to a production shortfall in India, one of the largest global producers of sugar.

None of the materials or supplies that Coca-Cola FEMSA uses is presently in short supply, although the supply of specific materials could be adversely affected by strikes, weather conditions, governmental controls or national emergency situations.

Mexico. Coca-Cola FEMSA purchases its returnable plastic bottles from Continental PET Technologies de México, S.A. de C.V, a subsidiary of Continental Can, Inc., which is the exclusive supplier of returnable plastic bottles to The Coca-Cola Company and its bottlers in Mexico. In addition, Coca-Cola FEMSA mainly purchases

Table of Contents

resin from Arteva Specialties, S. de R.L. de C.V. and Industrias Voridian, S.A. de C.V. that ALPLA Fábrica de Plásticos, S.A. de C.V., known as ALPLA, manufactures into non-returnable plastic bottles for Coca-Cola FEMSA.

Coca-Cola FEMSA purchases all of its cans from Promotora Mexicana de Embotelladoras, S.A. de C.V., known as PROMESA, a cooperative of Coca-Cola bottlers, in which it holds a 5.0% equity interest. Coca-Cola FEMSA mainly purchases its glass bottles from Silices de Veracruz, S.A. de C.V., known as SIVESA, a wholly-owned subsidiary of FEMSA Cerveza. Coca-Cola FEMSA purchases sugar from, among other suppliers, Beta San Miguel, S.A. de C.V., a sugar cane producer in which it holds a 2.5% equity interest.

Imported sugar is subject to import duties, the amount of which is set by the Mexican government. As a result, sugar prices in Mexico are in excess of international market prices for sugar. In 2009, sugar prices increased compared to 2008.

Latincentro (Colombia and Central America). In Colombia, Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which it buys from several domestic sources. Coca-Cola FEMSA purchases pre-formed ingots from Amcor and Tapón Corona de Colombia S.A. Coca-Cola FEMSA purchases all its glass bottles and cans from a supplier in which its competitor, Postobón, owns a 40% equity interest. Glass bottles and cans are available only from this one local source.

In Central America, the majority of Coca-Cola FEMSA's raw materials such as glass and plastic bottles and cans are purchased from several local suppliers. Sugar is available from one supplier in each country. Local sugar prices, in certain countries that comprised the region, are increasing due to higher international prices and the limited availability of sugar or high fructose corn syrup. In Costa Rica, Coca-Cola FEMSA acquires plastic non-returnable bottles from ALPLA C.R. S.A., and in Nicaragua it acquires such plastic bottles from ALPLA Nicaragua, S.A.

Venezuela. Coca-Cola FEMSA uses sugar as a sweetener in most of its products, which it purchases mainly from the local market. Since 2003, Coca-Cola FEMSA has experienced a sugar shortage due to lower domestic production and the inability of the predominant sugar importers to obtain permission to import in a timely manner. Sugar supply was severely affected in 2009 due to (1) shortages in sugar cane production, (2) the implementation of new regulations imposing a quota on the maximum amount of available sugar distributed to the food and beverages industry and (3) a production decrease by certain sugar mills. We cannot assure you that Coca-Cola FEMSA will be able to meet its sugar requirements in the long-term if sugar supply conditions do not improve. Coca-Cola FEMSA buys glass bottles from one local supplier, Productos de Vidrio, S.A., but there are alternative suppliers authorized by The Coca-Cola Company. Coca-Cola FEMSA acquires most of its plastic non-returnable bottles from ALPLA de Venezuela, S.A. and all of its aluminum cans from a local producer, Dominguez Continental, C.A.

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

Mercosur (Brazil and Argentina). Sugar is widely available in Brazil at local market prices, which historically have been similar to international prices. Sugar prices in Brazil in recent periods have been volatile, mainly due to the increased demand for sugar cane for production of alternative fuels, and Coca-Cola FEMSA's average acquisition cost for sugar in 2009 increased. Coca-Cola FEMSA purchases glass bottles, plastic bottles and cans from several domestic and international suppliers.

Argentina. In Argentina, Coca-Cola FEMSA mainly uses high fructose corn syrup that it purchases from several different local suppliers as a sweetener in its products instead of sugar. Coca-Cola FEMSA purchases glass bottles, plastic cases and other raw materials from several domestic sources. Coca-Cola FEMSA purchases pre-formed plastic ingots, as well as returnable plastic bottles, at competitive prices from Embotelladora del Atlántico S.A., a local subsidiary of Embotelladora Andina S.A., a Coca-Cola bottler with operations in Argentina, Chile and Brazil, and other local suppliers. Coca-Cola FEMSA also acquires plastic non-returnable bottles from ALPLA

Table of Contents

Avellaneda S.A. Coca-Cola FEMSA produces its own can presentations and juice-based products for distribution to customers in Buenos Aires.

Plants and Facilities

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

increasing the annual capacity of its bottling plants by installing new production lines;

installing clarification facilities to process different types of sweeteners;

installing plastic bottle-blowing equipment;

modifying equipment to increase flexibility to produce different presentations, including faster sanitation and changeover times on production lines; and

closing obsolete production facilities.

As of December 31, 2009, Coca-Cola FEMSA owned thirty-one bottling plants company-wide. By country, it has ten bottling facilities in Mexico, five in Central America, six in Colombia, four in Venezuela, four in Brazil and two in Argentina.

As of December 31, 2009, Coca-Cola FEMSA operated 210 distribution centers, approximately 40% of which were in its Mexican territories. Coca-Cola FEMSA owns more than 88% of these distribution centers and leases the remainder. See Product Distribution.

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

Bottling Facility Summary

As of December 31, 2009

Country	Installed Capacity (thousands of unit cases)	% Utilization ⁽¹⁾
Mexico	1,594,568	75%
Guatemala	36,850	70%
Nicaragua	85,766	43%
Costa Rica	78,486	58%
Panama	38,399	62%
Colombia	370,776	59%
Venezuela	275,205	81%
Brazil	623,676	66%
Argentina	285,825	66%

(1) Annualized rate.

Table of Contents**FEMSA Cerveza****Overview and Background**

FEMSA Cerveza produces beer in Mexico and Brazil and exports its products to 58 countries worldwide, with North America being its most important export market, followed by certain markets in Europe, Latin America and Asia. In 2009, FEMSA Cerveza was ranked the tenth-largest brewer in the world in terms of sales volume. In Mexico, its main market, FEMSA Cerveza is the second-largest beer producer in terms of sales volume. In 2009, approximately 66.4% of FEMSA Cerveza's sales volume came from Mexico, with the remaining 24.8% from Brazil and 8.8% from exports. In 2009, FEMSA Cerveza sold 40.548 million hectoliters of beer.

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

Our management identified Brazil as one of the most attractive and profitable beer markets in the world. As a result, in August 2007, after a series of transactions, FEMSA Cerveza acquired 83% of the Brazilian brewer Kaiser, one of the leading beer marketers in that country, and Heineken N.V. owns the remaining 17% stake in Kaiser. See Item 4. Information on the Company Corporate Background.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. See Item 5. Operating and Financial Review and Prospects Recent Developments and Item 10. Additional Information Material Contracts.

Beer Sales Volume

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

FEMSA Cerveza's total beer sales volume totaled 40.548 million hectoliters in 2009, a decrease of 1.2% from total sales volume of 41.053 million hectoliters in 2008. In 2009, FEMSA Cerveza's Mexican beer sales volume decreased by 1.7% to 26.929 million hectoliters. Brazil sales volume totaled 10.049 million hectoliters in 2009, a decrease of 1.3% from total sales volume of 10.181 million hectoliters in 2008. In 2009, export beer sales volume increased by 2.6% to 3.570 million hectoliters as compared to 3.479 million hectoliters in 2008.

FEMSA Cerveza Total Beer Sales Volumes

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in thousands of hectoliters)				
Mexico beer sales volume	26,929	27,393	26,962	25,951	24,580
Brazil beer sales volume	10,049	10,181	9,795	8,935	NA
Export beer sales volume	3,570	3,479	3,183	2,811	2,438
Total beer sales volume	40,548	41,053	39,940	37,697	27,018

FEMSA Cerveza's Mexican beer sales volume recorded a compounded average growth rate of 2.3% while compounded annual growth in the Mexican beer industry was 3% during the period from 2005 to 2009. This

Table of Contents

compares with the 0.8% compounded average growth rate of the Mexican gross domestic product for the same period. FEMSA Cerveza's Mexican beer sales for the same period recorded a 7.3% compounded average growth rate. FEMSA Cerveza's export sales volume recorded a compounded average growth rate of 10.0% for the same period, while the compounded average growth rate for FEMSA Cerveza export sales was 14.9%.

FEMSA Cerveza's Brazilian beer sales volume recorded a compounded average growth rate of 4.0% for the period from 2006 through 2009.

Mexico Operations

The Mexican Beer Market

The Mexican beer market was the sixth-largest beer market in the world in terms of industry sales volume in 2009 and is characterized by (1) concentrated domestic beer production, (2) regional market share differences, (3) the prevalence of government licensing regulations, (4) favorable demographics in the beer drinking population, and (5) fragmented retail markets.

Mexican beer production

Since 1985, Mexico has effectively had only two independent domestic beer producers, FEMSA Cerveza and Grupo Modelo. Grupo Modelo, a publicly traded company based in Mexico City, is the holding company of 76.8% of Diblo, S.A. de C.V., which operates the brewing and packaging subsidiaries of Grupo Modelo. Grupo Modelo's principal beer brands are *Corona*, *Modelo*, *Victoria* and *Pacífico*. FEMSA Cerveza's sales in the Mexican market have depended on its ability to compete with Grupo Modelo.

Historically, beer imports have not been a significant factor in the Mexican beer market, primarily due to the Mexican consumer preference for Mexican brands. In 2009, this segment accounted for approximately 2.0% of total Mexican beer market in terms of sales volume, a decrease of 0.4 p.p. compared to 2008, and reaching a similar market share to that of four years ago. The elimination of tariffs imposed on imported beers in 2001 had a limited effect on the Mexican beer market due to the fact that imported beers are largely premium and super-premium products sold in aluminum cans, which are a more expensive means of packaging in Mexico than beer sold in returnable bottles, and also given the dynamics of the beer market, where the point of sale is highly fragmented.

Regional market share differences

FEMSA Cerveza and Grupo Modelo are strongest in beer markets in different regions of Mexico. FEMSA Cerveza has a stronger market position in the northern and southern areas of Mexico while Grupo Modelo has a stronger market position in central Mexico. We believe that these regional market positions can be traced in part to consumer loyalty to the brand of beer that has historically been associated with a particular region.

We also believe that regional market strength is a function of the proximity of the breweries to the markets they serve. Transportation costs restricted the most efficient distribution of beer to a geographic area of approximately 300 to 500 kilometers surrounding a brewery. Generally, FEMSA Cerveza commands a majority of the beer sales in regions that were nearest to its largest breweries. FEMSA Cerveza's largest breweries are in Orizaba, Veracruz and in Monterrey, Nuevo León. Grupo Modelo's largest breweries are located in Mexico City, Oaxaca and Zacatecas.

The northern region of Mexico has traditionally enjoyed a higher per capita income level, attributable in part to its rapid industrialization within the last 50 years and to its commercial proximity to the United States. In addition, per capita beer consumption is also greater in this region due to its warmer climate and a more ingrained beer culture.

Table of Contents**Mexican Regional Demographic Statistics**

as of December 31, 2009

Region	Percent of Total Population	Percent of Total Gross Domestic Product	Per Capita Gross Domestic Product ⁽¹⁾
Northern	27.1%	33.5%	Ps. 124.9
Southern	22.9	15.3	67.1
Central	50.0	51.2	103.1
Total	100.0%	100.0%	Ps. 100.7

(1) Thousands of pesos

Source: FEMSA Cerveza estimates based on figures published by the Mexican Institute of Statistics, or INEGI, and CAPEM Oxford Economics Forecasting.

Government regulation

The Mexican federal government regulates beer consumption in Mexico primarily through taxation while local governments in Mexico regulate primarily through the issuance of licenses that authorize retailers to sell alcoholic beverages.

Up to 2009, Federal taxes on beer consist of a 15% value-added tax and an excise tax which is the higher of (1) 25% and (2) Ps. 3 per liter for non-returnable presentation or Ps. 1.74 for returnable presentations, as part of an environmental initiative by the Mexican governmental to encourage returnable presentations. Beginning on January 1, 2010, Mexican federal tax regulation increased value-added tax from 15% to 16% and the excise tax from 25% to 26.5% for 2010, 2011 and 2012. In 2013, the excise tax will decrease to 26%. The tax component of retail beer prices is significantly higher in Mexico than in the United States.

The number of retail outlets authorized to sell beer is controlled by local jurisdictions, which issue licenses authorizing the sale of alcoholic beverages. Other regulations regarding beer consumption in Mexico vary according to local jurisdiction and include limitations on the hours during which restaurants, bars and other retail outlets are allowed to sell beer and other alcoholic beverages. FEMSA Cerveza has been engaged in addressing these limitations at various levels, including efforts with governmental and civil authorities to promote better education for the responsible consumption of beer. For instance, as part of its ongoing community activities, FEMSA Cerveza was the first to implement a nationwide designated driver program (*Conductor designado*) in Mexico.

Since July 1984, Mexican federal regulation has required that all forms of beer packaging carry a warning advising that excessive consumption of beer is hazardous to one's health. In addition, the *Ley General de Salud* (General Health Law) requires that all beers sold in Mexico maintain a sanitation registration with the *Secretaría de Salud* (Ministry of Health).

Demographics of beer drinking population

We estimate that annual per capita beer consumption for the total Mexican population reached approximately 60 liters, or 0.6 hectoliters, in 2009, as compared to approximately 80 liters, or 0.8 hectoliters, in the United States. The legal drinking age is 18 in Mexico. We consider the population segment of men between the ages of 18 and 45 to be FEMSA Cerveza's primary market. At least 37% of the Mexican population is under the age of 18 and, therefore, is not considered to be part of the beer drinking population.

Macroeconomic influences affecting beer consumption

We believe that consumption activity in the Mexican beer market is heavily influenced by the general level of economic activity in Mexico, the country's gross wage base, changes in real disposable income and employment

Table of Contents

levels. As a result, the beer industry reacts sharply to economic change. The industry generally experiences high volume growth in periods of economic strength and slower volume growth or volume contraction in periods of economic weakness. Domestic beer sales declined in Mexico in 1982, 1983 and 1995. These sales decreases correspond to periods in which the Mexican economy experienced severe disruptions. Similarly, the economic slowdown observed in 2002 corresponded to a reduction in domestic beer sales in 2002. In 2003, given the effect of a continued economic slowdown on consumers, FEMSA Cerveza decided not to increase prices in real terms. The reduction in prices in real terms (after giving effect to inflation) was the main driver for increasing sales volumes during 2003. In 2004, growth in Mexico's gross domestic product was the main driver for increasing beer sales volume, despite price increases in nominal terms in the Mexican beer industry. In 2005, 2006 and 2007, beer sales volume growth outpaced growth in Mexico's gross domestic product and in 2008, although FEMSA Cerveza experienced a reduction in consumer demand due to the general economic downturn, volume growth outpaced growth in Mexico's gross domestic product for the fourth consecutive year. In 2009, the Mexican economy suffered the greatest gross domestic product drop in its modern history, caused mainly by the world economic crisis and the swine flu outbreak. Despite this, beer sales volume outpaced GDP once again, even though prices increased above inflation.

Beer Prices

During 2007, FEMSA Cerveza increased prices to partially compensate for the increase in raw material prices. In 2008, FEMSA Cerveza increased prices twice in the year, however the net effect was below the Mexican consumer price index. In 2009, FEMSA Cerveza once again increased prices in Mexico, which, along with the effect of the 2008 increase, resulted in a slight growth above the Mexican consumer price index.

According to the *Banco de México's* consumer beer price index, for the Mexican beer industry as a whole, average consumer beer prices increased 6.4% in nominal terms in 2009, which means that prices increased 1.1% over average inflation.

Product Overview

As of December 31, 2009, in Mexico FEMSA Cerveza produced and/or distributed 21 brands of beer in 14 different presentations resulting in a portfolio of 111 different product offerings. The most important brands in FEMSA Cerveza's Mexican portfolio included: *Tecate, Sol, Carta Blanca* and *Indio*. These four brands, all of which were distributed nationwide in Mexico, accounted for approximately 87% of FEMSA Cerveza's Mexico beer sales volume in 2009.

Per capita information, product segments, relative prices and packaging information with respect to FEMSA Cerveza have been computed and are based upon our statistics and assumptions.

Beer Presentations

In its Mexican operations, FEMSA Cerveza produces and distributes beer in returnable glass bottles and kegs and in non-returnable aluminum cans and glass bottles. FEMSA Cerveza uses the term presentation to reflect these packaging options.

Returnable presentations

The most popular form of packaging in the Mexican beer market is the returnable bottle. FEMSA Cerveza believes that the popularity of the returnable bottle is attributable to its lower price to the consumer. Returnable bottles may be reused an average of 30 times before being recycled. As a result, beer producers are able to charge lower prices for beer in returnable bottles. During periods when the Mexican economy is weak, returnable sales volume generally increase at a faster rate relative to non-returnable sales volume, given that non-returnable bottles are a more expensive presentation.

Table of Contents

Non-returnable presentations

FEMSA Cerveza's presentation mix in Mexico has been growing in non-returnable presentations in the last few years, as we tailor our offering to consumer preferences and provide different convenient alternatives. However, we believe that demand for these presentations is highly sensitive to economic factors because of their higher prices. The vast majority of export sales are in non-returnable presentations.

Relative Pricing

Returnable bottles and kegs are the least expensive beer presentation on a per-milliliter basis. Cans and non-returnable bottles have historically been priced higher than returnable bottles. The consumer preference for presentations in cans has varied considerably over the past 20 years, rising in periods of economic prosperity and declining in periods of economic austerity, reflecting the price differential between these forms of packaging.

Seasonality

Demand for FEMSA Cerveza's beer is highest in the Mexican summer season, and consequently, brewery utilization rates are at their highest during this period. Demand for FEMSA Cerveza's products also tends to increase in the month of December, reflecting consumption during the holiday season. Demand for FEMSA Cerveza's products decreases during the months of November, January and February primarily as a result of colder weather in the northern regions of Mexico.

Primary Distribution

FEMSA Cerveza's primary distribution in Mexico is from its production facilities to its distribution centers' warehouses. FEMSA Cerveza delivers to a combination of company-owned and third-party distributors. In an effort to improve the efficiency and alignment of the distribution network, FEMSA Cerveza adjusts its relationship with independent distributors by implementing franchise agreements and, as a result, has achieved economies of scale through integration with FEMSA Cerveza's operating systems. In recent years, FEMSA Cerveza has achieved infrastructure and personnel efficiencies through the integration of company-owned distribution centers. The results of these efficiencies have been partially diminished by the acquisition of third-party distribution centers. FEMSA Cerveza increased its directly distributed volume in respect of its Mexican beer sales volume to 91%, operating through 225 company-owned distribution centers. The remaining 9% of the beer sales volume was sold through 39 third-party distribution centers, most of them operating under franchise agreements with FEMSA Cerveza. A franchise agreement is offered only to those distributors that meet certain standards of operating capabilities, performance and alignment. FEMSA Cerveza has historically acquired those distributors that do not meet these standards. Through this initiative FEMSA Cerveza continues to seek to increase its Mexico beer sales volume through company-owned distribution centers.

Since 2004, FEMSA Cerveza's brewing subsidiary was appointed as the exclusive importer, producer, distributor, marketer and seller of *Coors Light* beer in Mexico.

Retail Distribution

The main sales outlets for beer in Mexico are small, independently-owned mom and pop grocery stores, dedicated beer stores or depósitos, liquor stores and bars. Supermarkets account for only a small percentage of beer sales in Mexico. In addition, as of December 31, 2009, FEMSA Comercio operates a chain of 7,334 convenience stores under the trade name OXXO that exclusively sell FEMSA Cerveza's brands.

The Mexican retail market is fragmented and characterized by a preponderance of small outlets that are unable and unwilling to maintain meaningful inventory levels, and therefore FEMSA Cerveza must make frequent product deliveries to its retailers. Through the pre-sale process, FEMSA Cerveza improves its distribution practices, enhances efficiency by separating the selling and distribution processes and consequently improves the effectiveness of routes. During 2008, FEMSA Cerveza implemented a new method of serving its customers by addressing customer needs through alternative pre-sale processes, through which FEMSA Cerveza has sought to increase its

Table of Contents

efficiency while at the same time improve the capabilities of its sales force to better implement sales strategies at the point of sale and better serve different customer types. As of the December 31, 2009, approximately 21% of the customers were served through alternative pre-sale processes including electronic ordering and telephone sales in a call center. See Marketing Strategy.

As of December 31, 2009, FEMSA Cerveza serves approximately 330,000 retailers in Mexico and its distribution network operates approximately 2,067 retail distribution routes, which represents a decrease of 240 routes, principally due to an increase in the number of retailer visits per route during 2009.

Enterprise Resource Planning

FEMSA Cerveza operates an Enterprise Resource Planning system, or ERP, that provides an information and control platform to support commercial activities nationwide in Mexico and correlates them with the administrative and business development decision-making processes occurring in FEMSA Cerveza's central office. The Mexican beer sales volume of all FEMSA Cerveza's company-owned distribution centers, including our main third-party distributors, operates through ERP.

Marketing Strategy

FEMSA Cerveza focuses on the consumer by segmenting markets and positions its brands accordingly, striving to develop brand and packaging portfolios that provide the best alternatives for every consumption occasion at the appropriate price. By segmenting markets, we refer to the technique whereby we design and execute relevant and distinctive positioning and communication strategies that allowed us to satisfy different consumer needs. Continuous market research provides feedback that is used to develop and adapt our product offerings to best satisfy consumers needs. We increasingly focus on micro-segmentation, where we use our market research and our information technology systems to target smaller market segments, including in some cases the individual point-of-sale.

FEMSA Cerveza also focuses on the retailer by designing and implementing trade marketing programs at the point-of-sale, such as promotional programs providing merchandising materials and, where appropriate, refrigeration equipment. A channel refers to a point-of-sale category, or sub-category, such as a supermarket, beer depot or restaurants. Furthermore, we always attempt to develop new channels in order to capture incremental consumption opportunities for FEMSA Cerveza's brands.

In order to coordinate the brand and trade strategies, we developed and implemented integrated marketing programs, which aimed to improve brand value through effective application of all variables of the marketing mix. Our marketing program for a particular brand sought to emphasize in a consistent manner the distinctive attributes of that brand.

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

Plants and Facilities

As of December 31, 2009, FEMSA Cerveza operates six breweries in Mexico with an aggregate monthly production capacity of 3.18 million hectoliters, equivalent to approximately 38.180 million hectoliters of annual capacity. Each of FEMSA Cerveza's Mexican breweries received ISO 9001 and 9002 certification and a Clean Industry Certification (*Certificado de Industria Limpia*) given by Mexican environmental authorities. A key consideration in the selection of a site for a brewery is its proximity to potential markets, as the cost of transportation is a critical component of the overall cost of beer to the consumer. FEMSA Cerveza's Mexican breweries are strategically located across the country, as shown in the table below, to better serve FEMSA Cerveza's distribution system.

Table of Contents**FEMSA Cerveza Mexico Facility Capacity Summary****Year Ended December 31, 2009**

Brewery	Average Annualized Capacity (in thousands of hectoliters)
Orizaba	10,200
Monterrey	8,900
Toluca	5,400
Navojoa	5,400
Tecate	4,680
Guadalajara	3,600
Total	38,180
Average capacity utilization	78.8%

Between 2005 and 2009, FEMSA Cerveza increased its average monthly production capacity by approximately 374,000 hectoliters through additional investments in existing facilities.

FEMSA Cerveza operates seven effluent water treatment systems in Mexico to treat the water used by the breweries, all of which are wholly-owned by FEMSA Cerveza except for the effluent treatment system at the

Table of Contents

Orizaba brewery, which is a joint venture among FEMSA Cerveza, several other local companies and the government of the state of Veracruz.

In November 2007, FEMSA Cerveza announced an investment of US\$ 275 million for the construction of a new brewery in Meoqui, Chihuahua, in Northern Mexico and as of December 31, 2009 FEMSA Cerveza had invested Ps. 270 million (US\$ 20 million) in the project.

Glass Bottles and Cans

During 2009, FEMSA Cerveza produced (1) beverage cans and can ends, (2) glass bottles and (3) crown caps for glass bottle presentations principally to meet the packaging needs of its Mexican operations. The packaging operations includes a silica sand mine, which provide materials necessary for the production of glass bottles. The following table provides a summary of the facilities for these operations:

FEMSA Cerveza Mexico Glass Bottle and Beverage Can Operations Product Summary

Year Ended December 31, 2009

Product	Location	Annual Production Capacity ⁽¹⁾	% Average Capacity Utilization
Beverage cans	Ensenada	1,700	80.5
	Toluca	3,000	95.7
		4,700	90.2
Can ends	Monterrey	5,100	82.6
Crown cap	Monterrey	18,000	89.2
Glass bottles	Orizaba	1,450	76.3
Bottle decoration	Nogales	330	40.6
Silica sand	Acayucan	720	74.8

(1) Amounts are expressed in millions of units of each product, except for silica sand which is expressed in thousands of tons.

Two plants produce aluminum beverage can bodies at production facilities in Ensenada and Toluca, and another plant produces can ends at a production facility in Monterrey. During 2009, 68% of the beverage can volume produced by these plants was used by FEMSA Cerveza and the remaining amount was sold to third parties.

Glass bottles are produced at a glass production facility in Orizaba, Veracruz and bottles are decorated at a plant in Nogales, Veracruz. During 2009, 63% of the glass bottle volume produced by these plants was used by FEMSA Cerveza, 17% was sold to Coca-Cola FEMSA and 20% was sold to third parties.

Due to the downturn in the global economy in 2009, FEMSA Cerveza suspended the construction of the glass bottle facility in Meoqui, Chihuahua. As a result, 2009 results were impacted by an expense of Ps. 119 million.

Raw Materials

Malted barley, hops, certain grains, yeast and water are the principal ingredients used in manufacturing FEMSA Cerveza's beer products. The principal raw materials used by FEMSA Cerveza's packaging plants include aluminum, steel and silica sand. All of these raw materials are generally available in the open market. FEMSA Cerveza satisfies its commodity requirements through purchases from various sources, including purchases pursuant to contractual arrangements and purchases in the open market.

Aluminum and steel are two of the most significant raw materials used in FEMSA Cerveza's packaging operations to make aluminum cans, can ends and bottle caps. FEMSA Cerveza purchases aluminum and steel directly from international and local suppliers on a contractual basis. Companies such as Alcoa, Nittetsu-Shoji, Novelis, CSN, Rasselstein and AHMSA have been selected as suppliers. Prices of aluminum and steel are generally

Table of Contents

quoted in U.S. dollars, and FEMSA Cerveza's cost is therefore affected by changes in exchange rates. For example, a depreciation of the Mexican peso against the U.S. dollar would increase the cost to FEMSA Cerveza of aluminum and steel, and would decrease FEMSA Cerveza's margins as its sales are generally denominated in Mexican pesos. FEMSA Cerveza's silica sand mine is able to satisfy all of the silica sand requirements of its glass bottle plant.

Barley is FEMSA Cerveza's most significant raw material for the production of its beer products. International markets determine the prices and supply sources of agricultural raw materials, which are affected by the level of crop production, inventories, weather conditions, domestic and export demand, as well as government regulations affecting agriculture. The principal source of barley for the Mexican beer industry is the domestic harvest. If domestic production in Mexico is insufficient to meet the industry's requirements, barley (or its equivalent in malt) can be obtained from international markets. Raw material prices have increased in recent years, in particular the price for barley due to the fact that during 2006 and 2007 the harvests of Europe and Australia (two of the largest producers) fell because of droughts and untimely rains. Additionally, the price of wheat, which is not an ingredient of FEMSA Cerveza's beers, but competes for land with barley and other grains, increased significantly in 2007 and during most of 2008, adding pressure to the price of grains worldwide. In the second half of 2008, wheat prices declined due to higher harvests and lower demand. In 2009, crop prices and the worldwide economic situation improved the stock-to-use ratios for grains as compared to 2008.

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

As part of its normal operations, FEMSA Cerveza uses derivative financial instruments to hedge risk exposures associated with the price of some raw materials that are traded on international markets, such as aluminum, natural gas and wheat.

Brazil Operations

The Brazilian Beer Market

The Brazilian beer market was the third-largest beer market in the world in terms of industry sales volume in 2009 and is characterized by (1) concentrated domestic beer production, (2) favorable demographics in the beer drinking population, and (3) a fragmented retail channel.

Concentrated Brazilian beer production

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

Demographics of beer drinking population

We estimate that annual per capita beer consumption for the total Brazilian population reached approximately 57 liters in 2009. The legal drinking age is 18 in Brazil. We consider the population segment of men between the ages of 18 and 45 to be FEMSA Cerveza's primary market. Approximately 31% of the Brazilian population is under the age of 18 and, therefore, is not considered to be part of the beer drinking population.

Table of Contents

Product Overview

As of December 31, 2009, in Brazil FEMSA Cerveza produced and/or distributed 15 brands of beer in 11 different presentations resulting in a portfolio of 47 different product offerings. The most important brands in FEMSA Cerveza's Brazilian portfolio include: *Kaiser*, *Bavaria Clásica*, *Sol*, *Heineken* and *Xingu*. These five brands, all of which are distributed nationwide in Brazil, accounted for approximately 96% of FEMSA Cerveza's Brazil beer sales volume in 2009.

Beer Presentations

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

Primary Distribution

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

Retail Sales and Distribution

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

Plants and Facilities

As of December 31, 2009, FEMSA Cerveza operates eight breweries in Brazil with an aggregate monthly production capacity of 1.7 million hectoliters, equivalent to approximately 20 million hectoliters of annual capacity. All eight Brazilian breweries received ISO 9001, ISO 14.001 and OHASA 18.001 certifications. A key consideration in the selection of a site for a brewery is its proximity to potential markets, as the cost of transportation is a critical component of the overall cost of beer to the consumer. FEMSA Cerveza's Brazilian breweries are strategically located across the country, as shown in the table below, to better serve FEMSA Cerveza's distribution system.

Table of Contents**FEMSA Cerveza Brazil Facility Allocation****as of December 31, 2009****FEMSA Cerveza Brazil Facility Capacity Summary****Year Ended December 31, 2009**

Brewery	Average Annualized Capacity (in thousands of hectoliters)
Jacareí	7,800
Ponta Grossa	3,100
Araraquara	2,800
Feira de Santana	2,000
Pacatuba	2,017
Gravataí	1,700
Cuiabá	400
Manaus	480
Total	20,297
Average capacity utilization	50.5%

Exports

FEMSA Cerveza's principal export market is the United States and its export strategy focuses on that country. In particular, FEMSA Cerveza concentrates efforts on its core markets located in the sun-belt states bordering Mexico, while seeking to develop its brands in key imported beer markets located in the eastern United

Table of Contents

States. FEMSA Cerveza believes that these two regions of the United States represent one of its greatest potential markets outside of Mexico.

Prior to January 1, 2005, Labatt USA was the importer of FEMSA Cerveza's brands in the United States. On June 21, 2004, FEMSA Cerveza and two of its subsidiaries entered into distributor and sublicense agreements with Heineken USA. In accordance with these agreements, on January 1, 2005, Heineken USA became the exclusive importer, marketer and seller of FEMSA Cerveza's brands in the United States. In April 2007, FEMSA Cerveza and Heineken USA entered into a new ten-year agreement pursuant to which Heineken USA will continue to be the exclusive importer, marketer and distributor of FEMSA Cerveza's beer brands in the United States. This agreement went into effect on January 1, 2008. Heineken will continue to benefit from the existing relationship between OXXO and FEMSA Cerveza after the closing of the Heineken transaction.

Export beer sales volume of 3,570 million hectoliters in 2009 represent 8.8% of FEMSA Cerveza's total beer sales volume. FEMSA Cerveza's export beer revenues of Ps. 4,737 represent 10.2% of total revenues in 2009. The following table highlights FEMSA Cerveza's export beer sales volumes and export beer sales:

FEMSA Cerveza Export Summary

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Export beer sales volume ⁽¹⁾	3,570	3,479	3,183	2,811	2,438
Volume growth ⁽²⁾	2.6%	9.3%	13.2%	15.3%	8.8%
Percent of total beer sales volumes ⁽³⁾	8.8%	8.5%	8.0%	7.4%	9.0%
Mexican pesos ⁽⁴⁾ (millions)	4,737	3,608	3,339	2,977	2,717
U.S. dollars ⁽⁵⁾ (millions)	350	327	299	256	227
Revenue growth (US\$) ⁽²⁾	7.0%	9.4%	16.5%	13.0%	45.8%
Percent of total revenues	10.2%	8.5%	8.4%	8.1%	10.2%

Source: FEMSA Cerveza.

(1) Thousands of hectoliters.

(2) Percentage change over prior year.

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

(4) Mexican pesos at December 31, 2009.

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

As of December 31, 2009, FEMSA Cerveza exports its products to 58 countries. The principal export market for FEMSA Cerveza is North America, which accounts for 89% of FEMSA Cerveza's export beer sales volume in 2009.

FEMSA Cerveza's principal export brands are *Tecate*, *XX Lager*, *Dos Equis (Ambar)* and *Sol*. These brands collectively account for 93% of FEMSA Cerveza's export sales volume for the year ended December 31, 2009.

FEMSA Comercio

Overview and Background

FEMSA Comercio operates the largest chain of convenience stores in Mexico, measured in terms of number of stores as of December 31, 2009, under the trade name OXXO. As of December 31, 2009, FEMSA Comercio operated 7,334 OXXO stores, of which 7,329 are located throughout the country, with a particularly strong presence in the northern part of Mexico, and the remaining five stores are located in Bogotá, Colombia.

FEMSA Comercio, the largest single customer of FEMSA Cerveza and of the Coca-Cola system in Mexico, was established by FEMSA in 1978 when two OXXO stores were opened in Monterrey, one store in Mexico City and another store in Guadalajara. The motivating factor behind FEMSA's entrance into the retail

Table of Contents

industry was to enhance beer sales through company-owned retail outlets as well as to gather information on customer preferences. In 2009, sales of beer through OXXO represented 13.4% of FEMSA Cerveza's domestic beer sales volume as well as approximately 15.1% of FEMSA Comercio's revenues. In 2009, a typical OXXO store carried 1,954 different store keeping units (SKUs) in 31 main product categories.

In recent years, FEMSA Comercio has gained importance as an effective distribution channel for our beverage products, as well as a rapidly growing point of contact with our consumers. Based on the belief that location plays a major role in the long-term success of a retail operation such as a convenience store, as well as a role in our continually improving ability to accelerate and streamline the new-store development process, FEMSA Comercio has focused on a strategy of rapid, profitable growth. FEMSA Comercio opened 716, 811 and 960 net new OXXO stores in 2007, 2008 and 2009, respectively. The accelerated expansion yielded total revenue growth of 13.6% to reach Ps. 53,549 million in 2009. Starting in 2008, FEMSA Comercio revenues reflect an accounting effect of the mix shift from physical prepaid wireless air-time cards to the sale of electronic air-time for which only the margin is recorded, not the full revenue amount of the electronic recharge. Therefore, store sales increased 1.3%, which is lower than the retail industry average of 2.9% for the same period. Excluding this effect, same store sales would have increased above the retail industry average. FEMSA Comercio performed approximately 2,032 million transactions in 2009 compared to 1,695 million in 2008.

Business Strategy

A fundamental element of FEMSA Comercio's business strategy is to utilize its position in the convenience store market to grow in a cost-effective and profitable manner. As a market leader in convenience store retailing, based on internal company surveys, management believes that FEMSA Comercio has an in-depth understanding of its markets and significant expertise in operating a national store chain. FEMSA Comercio intends to continue increasing its store base while capitalizing on the market knowledge gained at existing stores.

FEMSA Comercio has developed proprietary models to assist in identifying appropriate store locations, store formats and product categories. Its model utilizes location-specific demographic data and FEMSA Comercio's experience in similar locations to fine tune the store format and product offerings to the target market. Market segmentation is becoming an important strategic tool, and it should increasingly allow FEMSA Comercio to improve the operating efficiency of each location and the overall profitability of the chain.

FEMSA Comercio has made and will continue to make significant investments in information technology to improve its ability to capture customer information from its existing stores and to improve its overall operating performance. All products carried through OXXO stores are bar-coded, and all OXXO stores are equipped with point-of-sale systems that are integrated into a company-wide computer network. To implement revenue management strategies, FEMSA Comercio created a division in charge of product category management for products, such as beverages, fast food and perishables, to enhance and better utilize its consumer information base and market intelligence capabilities. FEMSA Comercio has implemented an ERP system, which will allow FEMSA Comercio to continue redesigning its key operating processes and enhance the usefulness of its market information going forward. In addition, FEMSA Comercio has expanded its operations by opening five new stores in Bogotá, Colombia in 2009.

FEMSA Comercio has adopted innovative promotional strategies in order to increase store traffic and sales. In particular, FEMSA Comercio sells high-frequency items such as beverages, snacks and cigarettes at competitive prices. FEMSA Comercio's ability to implement this strategy profitably is partly attributable to the size of the OXXO chain, as FEMSA Comercio is able to work together with its suppliers to implement their revenue-management strategies through differentiated promotions. OXXO's national and local marketing and promotional strategies are an effective revenue driver and a means of reaching new segments of the population while strengthening the OXXO brand. For example, the organization has refined its expertise in executing cross promotions (discounts on multi-packs or sales of complementary products at a special price) and targeted promotions to attract new customer segments, such as housewives, by expanding the offerings in the grocery product category in certain stores. FEMSA Comercio is also strengthening its capabilities to increasingly provide consumers with services such as utility bill payment and other basic transactions.

Table of Contents

Store Locations

With 7,329 OXXO stores in Mexico and five stores in Colombia as of December 31, 2009, FEMSA Comercio operates the largest convenience store chain in Latin America measured by number of stores. OXXO stores are concentrated in the northern part of Mexico, but also have a growing presence in central Mexico and the Gulf coast.

FEMSA Comercio

Regional Allocation of OXXO Stores in Mexico and Latin America^(*)

as of December 31, 2009

FEMSA Comercio has aggressively expanded its number of stores over the past several years. The average investment required to open a new store varies, depending on location and format and whether the store is opened in an existing retail location or requires construction of a new store. FEMSA Comercio is generally able to use supplier credit to fund the initial inventory of new stores.

Table of Contents**Growth in Total OXXO Stores**

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Total OXXO stores	7,334	6,374	5,563	4,847	4,141
Store growth (% change over previous year)	15.1%	14.6%	14.8%	17.0%	19.5%

FEMSA Comercio currently expects to continue the growth trend established over the past several years by emphasizing growth in areas of high economic potential in existing markets and by expanding in underserved and unexploited markets. Management believes that the southeast part of Mexico is particularly underserved by the convenience store industry.

The identification of locations and pre-opening planning in order to optimize the results of new stores are important elements in FEMSA Comercio's growth plan. FEMSA Comercio continuously reviews store performance against certain operating and financial benchmarks to optimize the overall performance of the chain. Stores unable to maintain benchmark standards are generally closed. Between December 31, 2005 and 2009, the total number of OXXO stores increased by 3,193 which resulted from the opening of 3,283 new stores and the closing of 90 existing stores.

Competition

OXXO competes in the convenience store segment of the retail market with 7-Eleven, Super Extra, Super City, Circle-K and AM/PM, as well as other local convenience stores. The format of these stores is similar to the format of the OXXO stores. OXXO competes both for consumers and for new locations for stores and the managers to operate those stores. Based on an internal market survey conducted by FEMSA Comercio, management believes that, as of December 31, 2009, there were approximately 11,688 stores in Mexico that could be considered part of the convenience store segment of the retail market. OXXO is the largest chain in Mexico, operating almost two-thirds of these stores. Furthermore, FEMSA Comercio operates in the 32 Mexican states and has much broader geographical coverage than any of its competitors in Mexico.

Market and Store Characteristics*Market Characteristics*

FEMSA Comercio is placing increased emphasis on market segmentation and differentiation of store formats to more appropriately serve the needs of customers on a location-by-location basis. The principal segments include residential neighborhoods, commercial and office locations and stores near schools and universities, along with other types of specialized locations.

Approximately 67% of OXXO's customers are between the ages of 15 and 35. FEMSA Comercio also segments the market according to demographic criteria, including income level.

Store Characteristics

The average size of an OXXO store is approximately 108 square meters of selling space, excluding space dedicated to refrigeration, storage or parking. The average constructed area of a store is approximately 186 square meters and, when parking areas are included, the average store size increases to approximately 441 square meters.

Table of Contents**FEMSA Comercio Operating Indicators**

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(percentage increase compared to previous year)				
Total FEMSA Comercio revenues	13.6%	12.0%	14.3%	18.7%	21.8%
OXXO same-store sales ⁽¹⁾	1.3%	0.4%	3.3%	8.2%	8.7%
	(percentage of total)				
Beer-related data:					
Beer sales as % of total store sales	15.1%	14.6%	13.4%	13.5%	13.0%
OXXO store sales as a % of FEMSA Cerveza's volume	13.4%	12.3%	11.0%	9.9%	8.6%

(1) Same-store sales growth is calculated by comparing the sales of stores for each year that have been in operation for at least 13 months with the sales of those same stores during the previous year.

Beer, cellular telephone air-time, soft drinks and cigarettes represent the main product categories for OXXO stores. FEMSA Comercio has a distribution agreement with FEMSA Cerveza. As a result of this agreement, OXXO stores only carry beer brands produced and distributed by FEMSA Cerveza. As part of the Heineken transaction, OXXO stores will continue to benefit from the existing relationship under which FEMSA Cerveza (now part of Heineken) will continue to be the exclusive supplier of beer to OXXO until June 2020. Prior to 2001, OXXO stores had informal agreements with Coca-Cola bottlers, including Coca-Cola FEMSA's territories in central Mexico, to sell only their products. Since 2001, a limited number of OXXO stores began selling *Pepsi* products in certain cities in northern Mexico, as part of a defensive competitive strategy.

Approximately 71% of OXXO stores are operated by independent managers responsible for all aspects of store operations. The managers are commission agents and are not employees of FEMSA Comercio. Each store manager is the legal employer of the store's staff, which typically numbers six people per store. FEMSA Comercio continually invests in on-site operating personnel, with the objective of promoting loyalty, customer-service and low personnel turnover in the stores.

Advertising and Promotion

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

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

Inventory and Purchasing

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

Management believes that the OXXO chain's scale of operations provides FEMSA Comercio with a competitive advantage in its ability to realize strategic alliances with suppliers. General category offerings are determined on a national level, although purchasing decisions are implemented on a local, regional or national level,

Table of Contents

depending on the nature of the product category. Given the fragmented nature of the retail industry in Mexico in general, Mexican producers of beer, soft drinks, bread, dairy products, snacks, cigarettes and other high-frequency products have established proprietary distribution systems with extensive direct distribution routes. As a result, approximately 51% of the products carried by the OXXO chain are delivered directly to the stores by suppliers. Other products with longer shelf lives are distributed to stores by FEMSA Comercio's distribution system, which includes ten regional warehouses located in Monterrey, Mexico City, Guadalajara, Mexicali, Mérida, León, Obregón, Puebla, Chihuahua and Reynosa. The distribution centers operate a fleet of approximately 354 trucks that make deliveries to each store approximately once a week.

Seasonality

OXXO stores experience periods of high demand in December, as a result of the holidays, and in July and August, as a result of increased consumption of beer and soft drinks during the hot summer months. The months of November and February are generally the weakest sales months for OXXO stores. In general, colder weather during these months reduces store traffic and consumption of cold beverages.

Other Stores

FEMSA Comercio also operates other stores under the names Bara, Six and Matador.

Other Business

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

Our commercial refrigerators, labels and flexible packaging subsidiaries. The refrigeration business produces vertical and horizontal commercial refrigerators for the soft drink, beer and food industries, with an annual capacity of 257,280 units at December 31, 2009. In 2009, this business sold 227,085 refrigeration units, 45% of which were sold to Coca-Cola FEMSA, 9% of which were sold to FEMSA Cerveza and the remainder of which were sold to third parties. The labeling and flexible packaging business has its facility in Monterrey with an annual production capacity of 335,081 thousands meters of flexible packaging. In 2009, this business sold 41% of its label sales volume to FEMSA Cerveza, 20% to Coca-Cola FEMSA and 39% to third parties. Management believes that growth at these businesses will continue to reflect the marketing strategy of Coca-Cola FEMSA.

Our logistics services subsidiary provides logistics services to Coca-Cola FEMSA, FEMSA Empaques, the packaging operations of FEMSA Cerveza, FEMSA Comercio and third-party clients that either supply or participate directly in the Mexican beverage industry or in other industries. This business provides integrated logistics support for its clients' supply chain, including the management of carriers and other supply chain services.

One of our subsidiaries is the owner of the *Mundet* brands of soft drinks and certain concentrate production equipment, which are licensed to and produced and distributed by Coca-Cola FEMSA.

Our corporate services subsidiary employs all of our corporate staff, including the personnel managing the areas of finance, corporate accounting, taxation, legal, financial and strategic planning, human resources and internal audit. Through this subsidiary, we direct, control, supervise and review the operations of our sub-holding companies. As of December 31, 2009, FEMSA Cerveza, FEMSA Comercio and our packaging subsidiaries pay management fees for the services provided to them. In addition, Coca-Cola FEMSA has entered into a services agreement pursuant to which it pays for specific services. As part of the Heineken transaction, the corporate services subsidiary will continue to provide some services to Cervecería Cuauhtémoc Moctezuma (now part of Heineken), for which the entity will continue to pay.

Table of Contents

Description of Property, Plant and Equipment

As of December 31, 2009, we owned all of our manufacturing facilities and substantially all of our warehouses and distribution centers. Our properties primarily consisted of production and distribution facilities for our beer and soft drink operations and office space. In addition, FEMSA Comercio owns approximately 12.0% of the OXXO store locations, while the other stores are located in properties that are rented under long-term lease arrangements with third parties.

The table below sets forth the location, principal use and production area of our production facilities, and the sub-holding company that owns such facilities.

Table of Contents**Production Facilities of FEMSA**

As of December 31, 2009

Sub-holding Company	Location	Principal Use	Production Area (in thousands of sq. meters)
Coca-Cola FEMSA			
<i>Mexico</i>	San Cristóbal de las Casas, Chiapas	Soft Drink Bottling Plant	45
	Cuautitlán, Estado de México	Soft Drink Bottling Plant	35
	Los Reyes la Paz, Estado de México	Soft Drink Bottling Plant	50
	Toluca, Estado de México	Soft Drink Bottling Plant	242
	Celaya, Guanajuato	Soft Drink Bottling Plant	87
	León, Guanajuato	Soft Drink Bottling Plant	38
	Morelia, Michoacan	Soft Drink Bottling Plant	50
	Ixtacomitán, Tabasco	Soft Drink Bottling Plant	117
	Apizaco, Tlaxcala	Soft Drink Bottling Plant	80
	Coatepec, Veracruz	Soft Drink Bottling Plant	142
<i>Guatemala</i>	Guatemala City	Soft Drink Bottling Plant	47
<i>Nicaragua</i>	Managua	Soft Drink Bottling Plant	54
<i>Costa Rica</i>	Calle Blancos, San José	Soft Drink Bottling Plant	52
	Coronado, San José	Soft Drink Bottling Plant	14
<i>Panama</i>	Panama City	Soft Drink Bottling Plant	29
<i>Colombia</i>	Barranquilla	Soft Drink Bottling Plant	37
	Bogotá	Soft Drink Bottling Plant	105
	Bucaramanga	Soft Drink Bottling Plant	26
	Cali	Soft Drink Bottling Plant	76
	Manantial	Soft Drink Bottling Plant	67
	Medellín	Soft Drink Bottling Plant	47
<i>Venezuela</i>	Antimano	Soft Drink Bottling Plant	15
	Barcelona	Soft Drink Bottling Plant	141
	Maracaibo	Soft Drink Bottling Plant	68
	Valencia	Soft Drink Bottling Plant	100
<i>Brazil</i>	Campo Grande	Soft Drink Bottling Plant	36
	Jundiaí	Soft Drink Bottling Plant	191
	Mogi das Cruzes	Soft Drink Bottling Plant	119
	Belo Horizonte	Soft Drink Bottling Plant	73
<i>Argentina</i>	Alcorta	Soft Drink Bottling Plant	73
	Monte Grande, Buenos Aires	Soft Drink Bottling Plant	32

Table of Contents

Sub-holding Company	Location	Principal Use	Production Area (in thousands of sq. meters)	
FEMSA Cerveza	Tecate, Baja California	Brewery	586	
	Toluca, Estado de México	Brewery	375	
	Guadalajara, Jalisco	Brewery	117	
	Monterrey, Nuevo León	Brewery	445	
	Navojoa, Sonora	Brewery	548	
	Orizaba, Veracruz	Brewery	281	
	Pachuca, Hidalgo	Malt Plant	31	
	San Marcos, Puebla	Malt Plant	110	
	Ensenada, Baja California	Beverage Cans	33	
	Toluca, Estado de México	Beverage Cans	34	
	Monterrey, Nuevo León	Crown Caps and Can Lids	51	
	Acayucan, Veracruz	Silica Sand Mine	9	
	Nogales, Veracruz	Bottle Decoration	26	
	Orizaba, Veracruz	Glass Bottles	29	
	<i>Brazil</i>	Jacareí	Brewery	72
		Ponta Grossa	Brewery	44
Araraquara		Brewery	38	
Feira de Santana		Brewery	26	
Pacatuba		Brewery	38	
Gravataí		Brewery	23	
Cuiabá		Brewery	20	
Manaus		Brewery	11	

Insurance

We maintain an all risk insurance policy covering our properties (owned and leased), machinery and equipment and inventories as well as losses due to business interruptions. The policy covers damages caused by natural disaster, including hurricane, hail, earthquake and damages caused by human acts, including explosion, fire, vandalism, riot and losses incurred in connection with goods in transit. In addition, we maintain an all risk liability insurance policy that covers product liability. We purchase our insurance coverage through an insurance broker. The policies for all risk property insurance and all risk liability insurance are issued by ACE Seguros, S.A., and the coverage is partially reinsured in the international reinsurance market. We believe that our coverage is consistent with the coverage maintained by similar companies operating in Mexico.

Capital Expenditures and Divestitures

Our consolidated capital expenditures for the years ended December 31, 2009, 2008, and 2007 were Ps. 13,178 million, Ps. 14,234 million and Ps. 11,257 million respectively, and were for the most part financed from cash from operations generated by our subsidiaries. These amounts were invested in the following manner:

Table of Contents

	Year Ended December 31,		
	2009	2008	2007
	(in millions of Mexican pesos)		
Coca-Cola FEMSA	Ps. 6,282	Ps. 4,802	Ps. 3,682
FEMSA Cerveza	4,111	6,418	5,373
FEMSA Comercio	2,668	2,720	2,112
Other	117	294	90
Total	Ps. 13,178	Ps. 14,234	Ps. 11,257

Coca-Cola FEMSA

During 2009, Coca-Cola FEMSA's capital expenditures focused on increasing plant operating capacity, improving the efficiency of distribution infrastructure, placing coolers with retailers, returnable bottles and cases and information technology. Capital expenditures in Mexico were approximately Ps. 2,710 million and accounted for approximately 43% of Coca-Cola FEMSA's capital expenditures.

FEMSA Cerveza*Production*

During 2009, FEMSA Cerveza invested approximately Ps. 653 million on equipment substitution and upgrades in its facilities. FEMSA Cerveza's monthly installed capacity as of December 31, 2009 was 4.86 million hectoliters, equivalent to an annualized installed capacity of 58.3 million hectoliters. In addition, FEMSA Cerveza invested Ps. 295 million in plant improvements and equipment upgrades for its beverage can and glass bottle operations.

Distribution

In 2009, FEMSA Cerveza invested Ps. 387 million in its distribution network. Approximately Ps. 276 million of this amount was invested in the replacement of trucks in its distribution fleet, Ps. 70 million in land, buildings and improvements to leased properties dedicated to various distribution functions, and the remaining Ps. 41 million in other distribution-related investments.

Market-related Investments

During 2009, FEMSA Cerveza invested Ps. 2,154 million in market-related activities and brand support in the domestic market. Approximately 53% of these investments were directed to customer agreements with retailers and commercial support to owned and third-party distributors. Investments in retail agreements that exceed a one-year term are capitalized and amortized over the life of the agreement. In general, FEMSA Cerveza's retail agreements were for a period of four to five years. Other market-related investments include the purchase of refrigeration equipment, coolers and billboards. These items were placed with retailers as a mean of facilitating the retailers' ability to service consumers and to promote the image and profile of FEMSA Cerveza's brands.

Information Technology Investments and Others

In addition, during 2009, FEMSA Cerveza invested Ps. 622 million in system software projects.

FEMSA Comercio

FEMSA Comercio's principal investment activity is the construction and opening of new stores. During 2009, FEMSA Comercio opened 960 net new OXXO stores. FEMSA Comercio invested Ps. 2,668 million in 2009 in the addition of new stores, warehouses and improvements to leased properties.

Table of Contents

Regulatory Matters

Competition Legislation

The *Ley Federal de Competencia Económica* (Federal Economic Competition Law or Mexican Competition Law) became effective on June 22, 1993. The Mexican Competition Law and the *Reglamento de la Ley Federal de Competencia Económica* (Regulations under the Mexican Competition Law), effective as of October 13, 2007, regulate monopolies and monopolistic practices and require Mexican government approval of certain mergers and acquisitions. The Mexican Competition Law subjects the activities of certain Mexican companies, including us, to regulatory scrutiny. In addition, the Regulations under the Mexican Competition Law prohibit members of any trade association from reaching any agreement relating to the price of their products. Management believes that we are currently in compliance in all material respects with Mexican competition legislation.

In Mexico and in some of the other countries in which we operate, we are involved in different ongoing competition related proceedings. We believe that the outcome of these proceedings will not have a material adverse effect on our financial position or results of operations. See Item 8. Financial Information Legal Proceedings Coca-Cola FEMSA Antitrust Matters.

Taxation of Sparkling Beverages

All the countries in which Coca-Cola FEMSA operates, except for Panama, impose a value-added tax on the sale of sparkling beverages, with a rate of 16% in Mexico beginning in January 2010 (15% through the end of 2009), 12% in Guatemala, 15% in Nicaragua, 13% in Costa Rica, 16% in Colombia (applied only to the first sale in supply chain), 12% in Venezuela (beginning in April 2009), 17% (Mato Grosso do Sul) and 18% (São Paulo and Minas Gerais) in Brazil, and 21% in Argentina. In addition, several of the countries in which Coca-Cola FEMSA operates impose the following excise or other taxes:

Guatemala imposes an excise tax of 0.18 cents in local currency (Ps. 0.28 as of December 31, 2009) per liter of sparkling beverage.

Costa Rica imposes a specific tax on non-alcoholic bottled beverages based on the combination of packaging and flavor, a 5% excise tax on local brands, a 10% tax on foreign brands and a 14% tax on mixers, and another specific tax on non-alcoholic beverages of 14.39 colones (Ps. 0.33 as of December 31, 2009) for every 250 ml.

Nicaragua imposes a 9% tax on consumption, and municipalities impose a 1% tax on Coca-Cola FEMSA's Nicaraguan gross income.

Panama imposes a 5% tax based on the cost of goods produced.

Brazil imposes an average production tax of 4.9% and an average sales tax of 7.8%, both assessed by the federal government. Most of these taxes are fixed, based on average retail prices in each state where the company operates (VAT) or fixed by the federal government (excise and sales tax).

Argentina imposes an excise tax on sparkling beverages containing less than 5% lemon juice or less than 10% fruit juice of 8.7%, and an excise tax on flavored sparkling beverage with 10% or more fruit juice and on sparkling water of 4.2%, although this excise tax is not applicable to certain of Coca-Cola FEMSA's products.

Environmental Matters

In all of the countries where we operate, our businesses are subject to federal and state laws and regulations relating to the protection of the environment.

Table of Contents*Mexico*

In Mexico, the principal legislation is the *Ley General del Equilibrio Ecológico y la Protección al Ambiente* (Federal General Law for Ecological Equilibrium and Environmental Protection or the Mexican Environmental Law) and the *Ley General para la Prevención y Gestión Integral de los Residuos* (General Law for the Prevention and Integral Management of Waste), which are enforced by the *Secretaría de Medio Ambiente y Recursos Naturales* (Ministry of the Environment and Natural Resources or SEMARNAT). SEMARNAT can bring administrative and criminal proceedings against companies that violate environmental laws, and it also has the power to temporarily close non-complying facilities. Under the Mexican Environmental Law, rules have been promulgated concerning water, air and noise pollution and hazardous substances. In particular, Mexican environmental laws and regulations require that we file periodic reports with respect to air and water emissions and hazardous wastes and set forth standards for waste water discharge that apply to our operations. We are also subject to certain minimal restrictions on the operation of delivery trucks in Mexico City. We have implemented several programs designed to facilitate compliance with air, waste, noise and energy standards established by current Mexican federal and state environmental laws, including a program that installs catalytic converters and liquid petroleum gas in delivery trucks for our operations in Mexico City. See *Coca-Cola FEMSA Product Distribution*.

In addition, we are subject to the *Ley de Aguas Nacionales* (the National Water Law), enforced by the *Comisión Nacional del Agua* (the Mexican National Water Commission), or CONAGUA. Adopted in December 1992, the law provides that plants in Mexico that use deep water wells to supply their water requirements must pay a fee to the city for the discharge of residual waste water to drainage. Pursuant to this law, certain local authorities test the quality of the waste water discharge and charge plants an additional fee for measurements that exceed certain standards published by CONAGUA. All of Coca-Cola FEMSA's bottler plants located in Mexico City, as well as the Toluca plant, met these standards as of 2001.

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

As part of our environmental protection and sustainability strategies, some of our subsidiaries have entered into a wind power supply agreement with *Energía Alterna Istmeña S. de R.L. de C.V.* to receive electrical energy supply at Coca-Cola FEMSA and FEMSA Cerveza's plants, as well as at many OXXO stores. The wind farm will be entirely financed by the supplier, it will be located in the state of Oaxaca and it is expected to have an output of 220 megawatts. We anticipate that the wind power supply will begin in 2011.

Also, as part of Coca-Cola FEMSA's environmental protection and sustainability strategies, in December 2009, some of its affiliates, jointly with other third parties, entered into a generation and wind energy supply agreement with a subsidiary of *GAMESA Energía, S.A.* to supply energy to a plant in Toluca, Mexico, owned by Coca-Cola FEMSA's subsidiary, *Propimex, S.A. de C.V.* The plant, which is located in La Ventosa, Oaxaca, is expected to generate approximately 100 thousand megawatt hours annually. The energy supply services began in April 2010.

Central America

Coca-Cola FEMSA's Central American operations are subject to several federal and state laws and regulations relating to the protection of the environment, which have been enacted in the last ten years, as awareness has increased in this region about the protection of the environment and the disposal of dangerous and toxic materials as well as water usage. In some countries in Central America, Coca-Cola FEMSA is in the process of bringing its operations into compliance with new environmental laws on the timeline established by the relevant regulatory authorities. Coca-Cola FEMSA's Costa Rica and Panama operations have participated in a joint effort

Table of Contents

along with the local division of The Coca-Cola Company called *Misión Planeta* (Mission Planet) for the collection and recycling of non-returnable plastic bottles.

Colombia

Coca-Cola FEMSA's Colombian operations are subject to several Colombian federal, state and municipal laws and regulations related to the protection of the environment and the disposal of treated water and toxic and dangerous materials. These laws include the control of atmospheric emissions, noise emissions, disposal of treated water and strict limitations on the use of chlorofluorocarbons. Coca-Cola FEMSA is also engaged in nationwide campaigns for the collection and recycling of glass and plastic bottles as well as reforestation programs. Coca-Cola FEMSA has received a *Certificación Ambiental Fase IV* (Phase IV Environmental Certificate) for each of its Colombian plants.

Venezuela

Coca-Cola FEMSA's Venezuelan operations are subject to several Venezuelan federal, state and municipal laws and regulations related to the protection of the environment. The most relevant of these laws are the *Ley Orgánica del Ambiente* (Organic Environmental Law), the *Ley Sobre Sustancias, Materiales y Desechos Peligrosos* (Substance, Material and Dangerous Waste Law), the *Ley Penal del Ambiente* (Criminal Environment Law) and the *Ley de Aguas* (Water Law). Since the enactment of the Organic Environmental Law in 1995, Coca-Cola FEMSA's Venezuelan subsidiary has presented the proper authorities with plans to bring their production facilities and distribution centers into compliance with the law, which mainly consist of building or expanding the capacity of water treatment plants in Coca-Cola FEMSA's bottling facilities. Even though Coca-Cola FEMSA has had to adjust some of the originally proposed timelines due to construction delays, in 2009, Coca-Cola FEMSA completed the construction and received all the required permits to operate a new water treatment plant in its bottling facility located in the city of Barcelona. At the end of 2009, Coca-Cola FEMSA also agreed with the relevant authorities to construct a water treatment plant in its Valencia plant within the next 18 months. Coca-Cola FEMSA expects to complete the water treatment plant projects in the rest of its bottling facilities during the first half of 2011. Coca-Cola FEMSA is also in process of obtaining the ISO 14000 certification for all of its plants in Venezuela.

Brazil

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

Coca-Cola FEMSA's production plant located in Jundiá has been recognized by the Brazilian authorities for its compliance with environmental regulations and for having standards well above those imposed by the law. The plant has been certified for the (i) ISO 9001 since March 1995; (ii) ISO 14001 since March 1997; (iii) norm OHSAS 18001 since 2005; and iv) ISO 22000 since 2007. FEMSA Cerveza's other plants and Coca-Cola FEMSA's Brazilian operations are also ISO 9001, ISO 14001 and OHSAS 18001 certified.

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

In Brazil, a municipal regulation of the City of São Paulo, implemented pursuant to Law 13.316/2002, came into effect in May 2008. This regulation requires Coca-Cola FEMSA to collect for recycling a specified annual percentage of plastic bottles made from PET sold in the municipality; such percentage increases each year. As of May 2009, it was required to collect for recycling 50% of the PET bottles sold in the City of São Paulo and by May 2010, it is required to collect 75% of PET bottles for recycling and 90% in May 2011. Currently, Coca-Cola FEMSA is not able to collect the entire volume required of the PET bottles it sold in City of São Paulo for recycling.

Table of Contents

If Coca-Cola FEMSA does not meet the requirements of this regulation, which are more onerous than those imposed by the countries with the highest recycling standards, it could be fined and be subject to other sanctions, such as the suspension of operations in any of its plants and/or distribution centers located in the City of São Paulo. In May 2008, Coca-Cola FEMSA, together with other bottlers in São Paulo, through the *Associação Brasileira das Indústrias de Refrigerantes e de Bebidas Não-alcoólicas* (Brazilian Soft Drink and Non-Alcoholic Beverage Association, or ABIR), filed a motion requesting a court to overturn this regulation on the basis of impossibility of compliance. Through ABIR, Coca-Cola FEMSA is negotiating the reduction of recycling percentages and more reasonable timelines for compliance. In addition, in November 2009 in response to a requirement of the municipal authority request for Coca-Cola FEMSA to demonstrate the destination of the PET bottles sold in São Paulo, it filed a motion showing all of its recycling programs and requesting a more practical timeline to comply with the requirements of the law. Coca-Cola FEMSA is currently awaiting resolution of both of these matters.

Argentina

Coca-Cola FEMSA's Argentine operations are subject to federal and provincial laws and regulations relating to the protection of the environment. The most significant of these are regulations concerning waste water discharge, which are enforced by the *Secretaría de Ambiente y Desarrollo Sustentable* (Ministry of Natural Resources and Sustainable Development) and the *Organismo Provincial para el Desarrollo Sostenible* (Provincial Organization for Sustainable Development) for the province of Buenos Aires. Coca-Cola FEMSA's Alcorta plant is in compliance with environmental standards and has been certified for ISO 14001:2004 for the plants and operative units in Buenos Aires.

For all of Coca-Cola FEMSA's plant operations, Coca-Cola FEMSA employs two environmental management systems: (i) *Sistema Integral de Calidad* (Integral Quality System or SICKOF) and (ii) *Sistema de Administracion Ambiental* (Environmental Administration System or EKOSYSTEM). We do not believe that Coca-Cola FEMSA's business activities pose a material risk to the environment, and we believe that Coca-Cola FEMSA is in material compliance with all applicable laws and regulations.

Coca-Cola FEMSA has expended, and may be required to expend in the future, funds for compliance with and remediation under local environmental laws and regulations. Currently, we do not believe that such costs will have a material adverse effect on Coca-Cola FEMSA's results of operations, or financial condition. However, since environmental laws and regulations and their enforcement are becoming increasingly more stringent in Coca-Cola FEMSA's territories, and there is increased awareness by local authorities of higher environmental standards in the countries where it operates, changes in current regulations may result in an increase in costs, which may have an adverse effect on Coca-Cola FEMSA's future results of operations or financial condition. Coca-Cola FEMSA's management is not aware of any significant pending regulatory changes that would require a significant amount of additional remedial capital expenditures.

Other regulations

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

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

Table of Contents

Water Supply Law

Coca-Cola FEMSA and FEMSA Cerveza purchase water in Mexico directly from municipal water companies and pump water from wells and rivers pursuant to concessions obtained from the Mexican government on a plant-by-plant basis. Water use in Mexico is regulated primarily by the *Ley de Aguas Nacionales de 1992* (1992 Water Law), and regulations issued thereunder, which created the *Comisión Nacional del Agua* (National Water Commission). The National Water Commission is charged with overseeing the national system of water use. Under the 1992 Water Law, concessions for the use of a specific volume of ground or surface water generally run for five, ten, or fifteen-year terms, depending on the supply of groundwater in each region as projected by the National Water Commission. Concessionaires may request concession terms to be extended upon termination. The Mexican government is authorized to reduce the volume of ground or surface water granted for use by a concession by whatever volume of water is not used by the concessionaire for two consecutive years. However, because the current concessions for each of Coca-Cola FEMSA and FEMSA Cerveza's plants in Mexico do not match each plant's projected needs for water in future years, we successfully negotiated with the Mexican government the right to transfer the unused volume under concessions from certain plants to other plants anticipating greater water usage in the future. These concessions may be terminated if, among other things, we use more water than permitted or we fail to pay required concession-related fees and do not cure such situations in a timely manner.

Although we have not undertaken independent studies to confirm the sufficiency of the existing or future groundwater supply, we believe that our existing concessions satisfy our current water requirements in Mexico.

In Argentina, a state water company provides water to Coca-Cola FEMSA's Alcorta plant on a limited basis; however, we believe the authorized amount meets Coca-Cola FEMSA's requirements for this plant. Water is pumped from Coca-Cola FEMSA's own wells in its Monte Grande plant in Argentina, without the need for any specific permit or license.

In Brazil, we buy water directly from municipal utility companies and pump water from our own wells or rivers (Mogi das Cruzes and FEMSA Cerveza's plants) pursuant to concessions granted by the Brazilian government for each plant. According to the Brazilian Constitution, water is considered an asset of common use and may only be exploited for the national interest, by Brazilians or companies incorporated under Brazilian law. Dealers and users have the responsibility for any damage to the environment. The exploitation and use of water is regulated by the *Código de Mineração* (Code of Mining, Decree Law n°. 227/67), by the *Código de Águas Minerais* (Mineral Water Code, Decree Law n°. 7841/45), the National Water Resources Policy (Law n°. 9433/97) and by regulations issued thereunder. Companies that exploit water are supervised by the *Departamento Nacional de Produção Mineira - DNPM* (National Department of Mineral Production) and the National Water Agency in connection with sanitary, federal health agencies, as well as state and municipal authorities. In Coca-Cola FEMSA's Jundiaí and Belo Horizonte plants, we do not exploit mineral water. In the Mogi das Cruzes and Campo Grande plants, we have all the necessary permits related to the exploitation of mineral water.

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

In Nicaragua and Costa Rica, Coca-Cola FEMSA owns and exploits its own water wells granted through governmental concessions. In Guatemala, no license or permits are required to exploit water from the private wells in Coca-Cola FEMSA's own plants. In Panama, Coca-Cola FEMSA acquires water from a state water company. In Venezuela, Coca-Cola FEMSA uses private wells in addition to water provided by the municipalities, and Coca-Cola FEMSA has taken the appropriate actions, including actions to comply with water regulations, to have water supply available from these sources.

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

Table of Contents

ITEM 4A. UNRESOLVED STAFF COMMENTS

None

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with, and is entirely qualified by reference to, our audited consolidated financial statements and the notes to those financial statements. Our audited consolidated financial statements were prepared in accordance with Mexican Financial Reporting Standards, which differ in certain significant respects from U.S. GAAP. Notes 26 and 27 to our audited consolidated financial statements provide a description of the principal differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income, and cash flows for the same periods presented for Mexican Financial Reporting Standards purposes and for the consolidated statement of changes in stockholders' equity for the years ended December 31, 2008 and 2009, and reconciliation to U.S. GAAP of net income and stockholders' equity. See U.S. GAAP Reconciliation.

Overview of Events, Trends and Uncertainties

Management currently considers the following events, trends and uncertainties to be important to understanding its results of operations and financial position during the periods discussed in this section:

While Coca-Cola FEMSA's Mexican operations continue growing at a steady but moderate pace, operations in Central and South America are growing at accelerated rates. The *Coca-Cola* brand, together with the recently added still-beverage operation, delivered the majority of volume growth.

At FEMSA Cerveza, total beer sales volumes decreased in Mexico and Brazil and increased in the export market. The high price of raw materials, particularly aluminum and barley, represented in 2009 an uncertainty in our cost structure. Heineken USA has been distributing FEMSA Cerveza's beer brands in the United States since January 1, 2005 with very encouraging results, and we have signed an agreement that extends this commercial relationship until December 2017.

FEMSA Comercio accelerated its rate of OXXO store openings and continues to grow in terms of total revenues and as a percentage of our consolidated total revenues. FEMSA Comercio has lower operating margins than our beverage businesses. We expect to continue to expand the OXXO chain during 2010.

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

Table of Contents

Recent Developments

On February 27, 2009, Coca-Cola FEMSA announced that it had successfully closed the transaction with Bavaria, a subsidiary of SABMiller, to jointly acquire with The Coca-Cola Company, the *Brisa* bottled water business (including the *Brisa* brand and production assets). As of June 1, 2009, Coca-Cola FEMSA sells and distributes the *Brisa* portfolio in Colombia. This transaction facilitates Coca-Cola FEMSA's continued increasing presence in the water business and complements Coca-Cola FEMSA's brand portfolio. The purchase price of US\$ 92 million was shared equally by Coca-Cola FEMSA and The Coca-Cola Company.

In July 2009, Coca-Cola FEMSA paid down the maturities related to the Yankee Bond inherited with the acquisition of Panamco for an amount of US\$ 265 million and the Certificado Bursátil for an amount of Ps. 500 million, both with cash generated from our operations.

On January 11, 2010, FEMSA announced that its Board of Directors unanimously approved a definitive agreement under which FEMSA would exchange its FEMSA Cerveza business for a 20% economic interest in Heineken, one of the world's leading brewers. Under the terms of the agreement, FEMSA would receive 43,018,320 shares of Heineken Holding N.V. and 72,182,201 shares of Heineken N.V., of which 29,172,502 will be delivered pursuant to an allotted share delivery instrument. It is expected that the allotted shares will be acquired by Heineken in the secondary market for delivery to FEMSA over a term not to exceed five years. Nonetheless, during the period for the delivery of the allotted shares, FEMSA will be subject to all the economic benefits, as well as the risk and obligations, of the Heineken Group as if such shares had been delivered at the closing of the transaction on April 30, 2010. Heineken would also assume US\$ 2.1 billion of indebtedness, including FEMSA Cerveza's unfunded pension obligations. The principal terms of the Heineken transaction documents are summarized below in Item 10. Additional Information Material Contracts.

In January 2010, Coca-Cola FEMSA informed that Venezuelan Government authorities announced a devaluation of its currency, the Bolivar, and the establishment of a multiple exchange rate system: (1) 2.60 Bolivar to US\$ 1.00 for high priority categories, (2) 4.30 Bolivar to US\$ 1.00 for non-priority categories, and (3) the recognition of the existence of other exchange rates which the government shall determine. We expect this event will have an effect on our financial results, increasing our operating costs, as a result of the exchange rate movement applied to our U.S. dollar-denominated raw material cost, and reducing our Venezuelan operation results when translated into our reporting currency, the Mexican peso. According to accounting practices, the exchange rate that will be used to translate our financial statements as of January 2010, will be 4.30 Bolivar per U.S. dollar. As of December 31, 2009, the financial statements were translated to Mexican pesos using the exchange rate of 2.15 bolivars per U.S. dollar. As a result of this devaluation, the balance sheet of the Venezuelan subsidiary of Coca-Cola FEMSA reflected a reduction in shareholders' equity of Ps. 3,700 million which will be accounted for at the time of the devaluation in January 2010. The devaluation of the bolivars did not result in significant exchange losses in January 2010 as a result of remeasuring U.S. dollar denominated monetary items on hand as of December 31, 2009.

On February 5, 2010, Coca-Cola FEMSA successfully issued an aggregate principal amount of US\$ 500 million of senior notes due 2020, at a yield of 4.689% (U.S. Treasury + 105 basis points) with a coupon of 4.625%.

On February 25, 2010, and on April 16, 2010, Coca-Cola FEMSA repaid its Mexican peso-denominated bonds, *Certificado Bursátil* KOF 09 and *Certificado Bursátil* KOF03-03, at maturity in an aggregate principal amount of Ps. 2,000 million and Ps. 1,000 million, respectively.

On March 10, 2010, FEMSA announced that subsidiaries of FEMSA have signed an agreement with subsidiaries of The Coca-Cola Company to amend the shareholders agreement for Coca-Cola FEMSA. The main purpose of the amendment is to set forth that the appointment and compensation of the chief executive officer and all officers reporting to the chief executive officer, as well as the adoption of decisions related to the ordinary operations of Coca-Cola FEMSA shall only require a simple majority vote of the board of directors. Decisions related to extraordinary matters (such as business acquisitions or combinations, among others) shall continue requiring of the vote of the majority of the board of directors, including the affirmative vote of two of the members appointed by The Coca-Cola Company. This amendment was signed without transfer of any consideration. The

Table of Contents

percentage of our voting interest in our subsidiary Coca-Cola FEMSA remains the same after the signing of this amendment.

On March 29, 2010, FEMSA announced that the Comisión Federal de Competencia, Mexico's anti-trust regulator, has approved without reservation the strategic exchange of 100% of the shares of the beer operations owned by FEMSA for an interest in the Heineken Group, under the terms described in FEMSA's disclosure of January 11, 2010. Hart-Scott-Rodino approval has also been granted by the relevant trade authorities in the United States.

On April 14, 2010, Coca-Cola FEMSA held its AGM during which its shareholders approved the Company's consolidated financial statements for the year ended December 31, 2009, the declaration of dividends corresponding to fiscal year 2009 and the composition of the Board of Directors and Committees for 2010. Shareholders approved the payment of a cash dividend in the amount of approximately Ps. 2,604 million. The dividend paid as of April 26, 2010, in the amount of Ps. 1.41 per each ordinary share, equivalent to Ps. 14.10 per ADS.

On April 22, 2010, Heineken N.V. and Heineken Holding N.V. held their AGM, and approved the acquisition of 100% of the shares of the beer operations owned by FEMSA, under the terms announced on January 11, 2010. The AGM of Heineken appointed, subject to the completion of the acquisition of FEMSA's beer operations, Mr. Jose Antonio Fernandez Carbajal as member of the Board of Directors of Heineken Holding N.V. and Heineken N.V. Supervisory Board, and Mr. Javier Astaburuaga Sanjines as second representative in the Heineken N.V. Supervisory Board.

On April 26, 2010, FEMSA held its AGM, during which shareholders approved the transaction with Heineken, the Company's consolidated financial statements for the year ended December 31, 2009, the declaration of dividends corresponding to fiscal year 2009 and the composition of the Board of Directors for 2010. Shareholders approved the exchange of 100% of FEMSA's beer operations in Mexico and Brazil for a 20% economic interest in the Heineken Group, and the assumption by Heineken of debt in the amount of US\$2.1 billion dollars, under the transaction terms described on January 11, 2010. Additionally, shareholders approved the payment of a cash dividend in the amount of Ps. 2,600 million, consisting of Ps. 0.162076 per each Series D share and Ps. 0.1296608 per each Series B share, which amounts to Ps. 0.777965 per BD Unit or Ps. 7.77965 per ADS, and Ps. 0.648304 per B Unit. The dividend payment split into two equal payments, one was paid on May 4, 2010 and the second is payable on November 3, 2010.

On April 30, 2010, FEMSA announced the closing of the transaction pursuant to which FEMSA agreed to exchange 100% of its beer operations for a 20% economic interest in the Heineken Group. The principal terms of the Heineken transaction documents are summarized below in Item 10. Additional Information Material Contracts.

Changes in Mexican Financial Reporting Standards

The Mexican National Banking and Securities Commission announced the adoption of International Financial Reporting Standards for public companies

The *Comisión Nacional Bancaria y de Valores* (Mexican National Banking and Securities Commission, or CNBV) has announced that commencing in 2012, all Mexican public companies must report their financial information in accordance with International Financial Reporting Standards (IFRS). Since 2006, the *Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera* (Mexican Board of Research and Development of Financial Reporting Standards) has been modifying Mexican Financial Reporting Standards in order to ensure their convergence with IFRS. We are in the process of analyzing the potential impact of adopting IFRS.

Table of Contents

Effects of Changes in Economic Conditions

Our results of operations are affected by changes in economic conditions in Mexico and in the other countries in which we operate. For the years ended December 31, 2009, 2008 and 2007, 62%, 66% and 69%, respectively, of our total sales were attributable to Mexico (not including export sales). After the acquisitions of Panamco and Kaiser, we have greater exposure to countries in which we have not historically conducted operations, particularly countries in Central America, Colombia, Venezuela and Brazil, although we continue to generate a substantial portion of our total sales from Mexico. The participation of these other countries as a percentage of our total sales has increased during the last five years and is expected to continue increasing in future periods.

The Mexican economy is currently experiencing a downturn as a result of the impact of the global financial crisis on many emerging economies during the second half of last year. In the third quarter of 2009, Mexican GDP contracted by approximately 6.2% compared to the same period in 2008 and experienced a contraction of 6.5% for the full year of 2009, according to INEGI. According to the *Banco Nacional de México* survey regarding the economic expectations of specialists, Mexican GDP is expected to increase by 4.2% in 2010, as of the last estimate published in April 2010. The Mexican economy continues to be heavily influenced by the U.S. economy, and therefore, further deterioration in economic conditions in, or delays in the recovery of, the U.S. economy may hinder any recovery in Mexico.

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

The decrease of interest rates in Mexico in 2009 decreases our cost of Mexican peso-denominated variable interest rate indebtedness and could have a favorable effect on our financial position and results of operations during 2010. During 2008, due to constraints in the international credit market and limited credit availability in the international markets and Mexico, as well as changes in the currency mix of our debt, our weighted average interest rate increased by 70 basis points.

Beginning in the fourth quarter of 2008 and through 2009, the value of the Mexican peso relative to the U.S. dollar fluctuated significantly, with a low during 2008 of Ps. 9.92 per U.S. dollar, to a high of Ps. 13.94 per U.S. dollar. At December 31, 2009, the exchange rate (noon buying rate) was Ps. 13.0576 to US\$ 1.00. On April 30, 2010, the exchange rate was 12.2281. See Item 3. Key Information Exchange Rate Information. A depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar increases our cost of raw materials priced in U.S. dollars, including raw materials whose prices are set with reference to the U.S. dollar. In addition, a depreciation of the Mexican peso or local currencies in the countries in which we operate relative to the U.S. dollar will increase our U.S.-denominated debt obligations, which could negatively affect our financial position and results of operations, as we experienced in the fourth quarter of 2009.

Operating Leverage

Companies with structural characteristics that result in margin expansion in excess of sales growth are referred to as having high operating leverage.

The operating subsidiaries of Coca-Cola FEMSA and FEMSA Cerveza are engaged, to varying degrees, in capital-intensive activities. The high utilization of the installed capacity of the production facilities results in better fixed cost absorption, as increased output results in higher revenues without additional fixed costs. Absent significant increases in variable costs, gross profit margins will expand when production facilities are operated at higher utilization rates. Alternatively, higher fixed costs will result in lower gross profit margins in periods of lower output.

Table of Contents

In addition, the commercial operations of Coca-Cola FEMSA and FEMSA Cerveza are carried out through extensive distribution networks, the principal fixed assets of which are warehouses and trucks. The distribution systems of both Coca-Cola FEMSA and FEMSA Cerveza are designed to handle large volumes of beverages. Fixed costs represent an important proportion of the total distribution expense of both Coca-Cola FEMSA and FEMSA Cerveza. Generally, the higher the volume that passes through the distribution system, the lower the fixed distribution cost as a percentage of the corresponding revenues. As a result, operating margins improve when the distribution capacity is operated at higher utilization rates. Alternatively, periods of decreased utilization because of lower volumes will negatively affect our operating margins.

Critical Accounting Estimates

The preparation of our audited consolidated financial statements requires that we make estimates and assumptions that affect (1) the reported amounts of our assets and liabilities, (2) the disclosure of our contingent liabilities at the date of the financial statements and (3) the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on our historical experience and on various other reasonable factors that together form the basis for making judgments about the carrying values of our assets and liabilities. Our actual results may differ from these estimates under different assumptions or conditions. We evaluate our estimates and judgments on an on-going basis. Our significant accounting policies are described in note 4 to our audited consolidated financial statements. We believe our most critical accounting policies that imply the application of estimates and/or judgments are the following:

Allowance for doubtful accounts

We determine our allowance for doubtful accounts based on an evaluation of the aging of our receivable portfolio and the economic situation of our clients, as well as on our historical loss rate on receivables and the general economic environment in which we operate. Through 2009, our beer operations represented the most important part of the consolidated allowance for doubtful accounts as a result of the credit that FEMSA Cerveza extended to retailers, on terms and conditions in accordance with industry practices. Coca-Cola FEMSA and FEMSA Comercio sales are generally realized in cash.

Bottles and cases; allowance for bottle breakage

Through December 31, 2007, we recorded returnable bottles and cases at acquisition cost and restated them applying inflation factors. Pursuant to our adoption of NIF B-10, in 2008 we began recording these values at acquisition cost and currently only restate them in circumstances where they form part of our operations in countries with an inflationary economic environment. For FEMSA Cerveza and Coca-Cola FEMSA, breakage is expensed as it is incurred. We compare quarterly bottle breakage expense with the calculated depreciation expense of our returnable bottles and cases in plant and distribution centers, estimating a useful life of five years for glass beer bottles, four years for returnable glass soft drink bottles and plastic cases and 18 months for returnable plastic bottles. These useful lives are determined in accordance with our business experience. The annual calculated depreciation expense has been similar to the annual bottle breakage expense. Whenever we decide to discontinue a particular returnable presentation and retire it from the market, we write off the discontinued presentation through an increase in breakage expense.

Property, plant and equipment

Property, plant and equipment are depreciated over their estimated useful lives. The estimated useful lives represent the period we expect the assets to remain in service and to generate revenues. We base our estimates on the experience of our technical personnel. Depreciation is computed using the straight line method of accounting.

Until 2007, imported equipment was restated applying the inflation and exchange rates of the country of origin, in accordance with Mexican Financial Reporting Standards in effect at that date. Since 2008, imported equipment is recorded using the exchange rate as of the acquisition date and, if part of an inflationary economic environment, is restated applying the inflation rate of the reporting entity.

Table of Contents

We value at fair value long-lived assets for impairment and determine whether impairment exists, by comparing the book value of the assets with their fair value, which is calculated considering their operating conditions and the future cash flows expected to be generated based on their estimated remaining useful life as determined by management.

Valuation of intangible assets and goodwill

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

The intangible assets of indefinite life are subject to annual impairment tests. As of December 31, 2009, we have recorded intangible assets with indefinite lives, which consist of:

Coca-Cola FEMSA's rights to produce and distribute *Coca-Cola* trademark products for Ps. 49,520 million primarily as a result of the Panamco and REMIL acquisitions;

Trademarks and distribution rights for Ps. 11,357 million as a result of the acquisition of the 30% interest of FEMSA Cerveza and distribution rights acquired from a third-party distributor;

Trademarks and goodwill as a result of the acquisition of Kaiser for Ps. 5,864 million; and

Other intangible assets with indefinite lives that amounted to Ps. 787 million.

For Mexican Financial Reporting Standards purposes, goodwill is the difference between the price paid and the fair value of the shares and/or net assets acquired that was not assigned directly to an intangible asset. Goodwill is recorded in the functional currency of the subsidiary in which the investment was made and is translated into Mexican pesos applying the closing rate for each period. In countries with inflationary economic environments, this asset is restated applying inflation factors in the country of origin and is then translated into Mexican pesos at the year-end exchange rate. Since 2005, Bulletin B-7 (Business Acquisitions) establishes that goodwill is no longer subject to amortization, and is instead subject to an annual impairment test.

Impairment of goodwill and intangible assets with indefinite lives

We annually review the carrying value of our goodwill whenever circumstances indicate that the carrying amount of the reporting unit might exceed its implied fair value for long-lived assets. We also review annually the carrying value of our intangible assets with indefinite lives for impairment based on recognized valuation techniques. While we believe that our estimates are reasonable, different assumptions regarding such estimates could materially affect our evaluations.

Following our evaluations during 2009 and up to the date of this annual report, we do not have any information which leads to any impairment of goodwill or intangible assets with indefinite lives. We can give no assurance that our expectations will not change as a result of new information or developments. Future changes in economic or political conditions in any country in which we operate or in the industries in which we participate, however, may cause us to change our current assessment.

Executory contracts

As part of the normal course of business, we frequently invest in the development of our beer distribution channels through a variety of commercial agreements with different retailers in order to generate sales volume. These agreements are considered to be executory contracts and accordingly the costs incurred under these contracts are recognized as performance under the contracts is received.

These agreements require cash disbursements to be made in advance to certain retailers in order to fund activities intended to generate sales volume. These advance cash disbursements are then compensated for as sales

Table of Contents

are invoiced. These disbursements are considered to be market-related investments, which are capitalized as other assets. The amortization of amounts capitalized is presented as a reduction of net sales in relation to the volume sold to each retailer. The period of amortization is between three and four years, which is the normal term of the commercial agreements.

We periodically evaluate the carrying value of executory contracts. If the carrying value is considered to be impaired, these assets are written down as appropriate. The accuracy of the carrying value is based on our ability to predict certain key variables such as sales volume, prices and other industry and economic factors. Predicting these key variables involves assumptions based on future events. These assumptions are consistent with our internal projections.

Employee benefits

Our employee benefits, which we used to refer to as labor liabilities, are comprised of pension plan, seniority premium, post-retirement medical services and severance indemnities. The determination of our obligations and expenses for pension and other post-retirement benefits are determined by actuarial calculations and are dependent on our determination of certain assumptions used to estimate such amounts. We evaluate our assumptions at least annually.

In 2008, we adopted NIF D-3 (Employee Benefits), which eliminates the recognition of the additional liability resulting from the difference between obligations for accumulated benefits and net projected liability, in addition to making other important changes. On January 1, 2008, our additional liability cancelled was Ps. 1,510 million, of which Ps. 948 million corresponds to intangible assets and Ps. 354 to cumulative other comprehensive income, net of its deferred tax of Ps. 208 million.

Through 2007, our labor costs for past services related to severance indemnities and pension and retirement plans were amortized within the remaining labor life of employees. Beginning in 2008, NIF D-3 establishes a maximum five-year period to amortize the initial balance of the labor costs of past services of pension and retirement plans and the same amortization period for the labor cost of past service of severance indemnities, previously defined by Bulletin D-3 (Labor Liabilities) as unrecognized transition obligations and unrecognized prior service costs. As of December 31, 2009, 2008 and 2007, labor costs for past services amounted to Ps. 204 million, Ps. 221 million and Ps. 146 million, respectively; and were recorded within the operating income.

During 2007, actuarial gains and losses related to severance indemnities were amortized to account for the average labor life of our employees. Beginning in 2008, actuarial gains and losses related to severance indemnities are registered under operating income during the year in which they are generated. The balance of unrecognized actuarial gains and losses as of January 1, 2008 was recorded in other expenses and amounted to Ps. 198 million.

In 2007, FEMSA Cerveza approved a plan to allow certain qualifying employees to retire early beginning in 2008. This plan consisted of allowing employees over the age of 55 with 20 years of service to take advantage of early retirement in order to obtain the same pension benefits they would have obtained had they retired at their regular retirement age. In addition, this plan authorized FEMSA Cerveza to make severance payments to certain employees who otherwise would not have met the criteria for eligibility. The plan was intended to improve the efficiency of FEMSA's Cerveza operating structure. The total financial impact of the plan was Ps. 236 million, from which Ps.125 million was recorded in our consolidated income statement for 2007 as part of other expenses (See note 18 to our audited consolidated financial statements) and Ps. 111 million recorded in 2008 consolidated results.

While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension and other post-retirement obligations and our future expense. The following table is a summary of the three key assumptions to be used in determining 2009 annual labor liability expense, along with the impact on this expense of a 1% change in each assumed rate.

Table of Contents

Assumptions 2009 ⁽¹⁾	Nominal Rates 2009 ⁽³⁾	Nominal Rates 2008 ⁽³⁾	Real Rates 2009 and 2008 ⁽⁴⁾⁽⁵⁾	Impact of Rate Change ⁽²⁾	
				+1%	-1%
(in millions of Mexican pesos)					
Mexican and Foreign Subsidiaries:					
Discount rate	8.2%	8.2%	4.5%	Ps. (900)	Ps. 748
Salary increase	5.1%	5.1%	1.5%	502	(515)
Long-term asset return	8.2%	11.3%	4.5%	12	(5)

(1) Calculated using a measurement date as of December 2009.

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

(3) For countries considered non-inflationary economic environments according to Mexican Financial Reporting Standards.

(4) For countries considered inflationary economic environments according to Mexican Financial Reporting Standards.

(5) Assumptions used for 2007 calculations.

Income taxes

As we describe in note 23 to our audited consolidated financial statements, on January 1, 2010, the Mexican tax reform became effective. The most important changes are: an increase in the value added tax rate (IVA) from 15% to 16%, an increase on special tax on production and services from 25% to 26.5% and an increase in the statutory income tax rate from 28% in 2009 to 30% for 2010, 2011 and 2012, and a reduction from 30% to 29% and 28% for 2013 and 2014, respectively. In addition, the Mexican tax reform requires the reversal of the deferred tax recognized from 1999 thru 2004, which will be amortized over the next five years (notes 23D and 23E to our audited consolidated financial statements).

Mexican tax reform effective in 2007 introduced the *Impuesto Empresarial de Tasa Unica* (IETU) that functions similar to an alternative minimum corporate income tax, except that any amounts paid are not creditable against future income tax payments. Mexican taxpayers are now subject to the higher of the IETU or the income tax liability computed under Mexican Income Tax Law. This new tax is calculated on a cash-flow basis and the rates for 2009 and 2010 will be 17.0% and 17.5%, respectively.

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

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred taxes for recoverability and/or payment, and establish a valuation allowance based on historical taxable income, projected future taxable income and the expected timing of the reversals of existing temporary differences. If these estimates and related assumptions change in the future, we may be required to record additional valuation allowances against our deferred taxes resulting in an impact in net income.

The statutory income tax rate in Mexico was 28% for 2009, 2008 and 2007.

Indirect tax and legal contingencies

We are subject to various claims and contingencies related to indirect tax and legal proceedings as described in note 24 to our audited consolidated financial statements. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management periodically assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. If the potential loss from any claim or legal

proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss.

Table of Contents

Derivative Financial Instruments

We are required to measure all derivative financial instruments at fair value and recognize them in the balance sheet as an asset or liability. Changes in the fair value of derivative financial instruments are recorded each year in net income or as a component of cumulative other comprehensive income, based on the type of hedging instrument and the ineffectiveness of the hedge. The fair values of derivative financial instruments are determined considering quoted prices in recognized markets. If such instruments are not traded, fair value is determined by applying techniques based upon technical models supported by sufficient reliable and verifiable data, recognized in the financial sector. We base our forward price curves upon market price quotations.

New Accounting Pronouncements

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

During 2009, the following new accounting standards were issued under Mexican Financial Reporting Standards, which we are required to implement as described below. Except as otherwise noted, we will adopt these standards when they become effective. We are in the process of determining the impact of these new accounting standards on our financial reporting standards and results of operations, but we do not anticipate any significant impact except as may be described below.

NIF B-5, Financial Information by Segment

NIF B-5 includes definitions and criteria for reporting financial information by operating segment. NIF B-5 establishes that an operating segment shall meet the following criteria: (i) the segment engages in business activities from which it earns or is in the process of obtaining revenues, and incurs related costs and expenses; (ii) the operating results are reviewed regularly by the main authority of the entity's decision maker; and (iii) specific financial information is available. NIF B-5 requires disclosures related to operating segments subject to reporting, including details of earnings, assets and liabilities, reconciliations, information about products and services, and geographical areas. NIF B-5 is effective beginning on January 1, 2011, and this guidance shall be applied retrospectively for comparative purposes.

NIF B-9, Interim Financial Reporting

NIF B-9 prescribes the content to be included in a complete or condensed set of financial statements for an interim period. In accordance with this standard, the complete set of financial statements shall include: (i) a statement of financial position as of the end of the period, (ii) an income statement for the period, (iii) a statement of changes in shareholders' equity for the period, (iv) a statement of cash flows for the period and (v) notes providing the relevant accounting policies and other explanatory notes. Condensed financial statements shall include: (a) a condensed statement of financial position, (b) a condensed income statement, (c) a condensed statement of changes in shareholders' equity, (d) a condensed statement of cash flows and (e) selected explanatory notes. NIF B-9 is effective beginning on January 1, 2011. Interim financial statements shall be presented in comparative form.

NIF C-1, Cash and Cash Equivalents

NIF C-1 establishes that cash shall be measured at nominal value, and cash equivalents shall be measured at their acquisition cost for initial recognition. Subsequently, cash equivalents should be measured according to their designation: precious metals shall be measured at fair value, foreign currencies shall be translated to the reporting currency applying the closing exchange rate, other cash equivalents denominated in a different measure of exchange shall be recognized to the extent provided for this purpose at the closing date of financial statements, and available-for-sale investments shall be presented at fair value. Cash and cash equivalents shall be presented in the first line of assets (including restricted cash). NIF C-1 is effective beginning on January 1, 2010 and has been applied

Table of Contents

since that date, causing an increase in the cash balances reported as a result of the treatment of presentation of restricted cash.

New Accounting Pronouncements under U.S. Generally Accepted Accounting Principles (GAAP)

During 2009, the following new accounting standard was issued under U.S. GAAP, which we are required to implement as described below. We will adopt this standard as of January 1, 2010. We are in the process of determining the impact of this new accounting standard on our financial reporting standards and results of operations, but we do not anticipate any significant impact.

Amendments to SFAS Interpretation FIN 46R, or SFAS No. 167, ASC 810

The objective of issuing amendments to ASC 810 is to improve financial reporting by enterprises involved with variable interest entities. The Board undertook this project to address (i) the effects on certain provisions of ASC 810 Consolidation as a result of the elimination of the qualifying special-purpose entity concept in ASC 860-10-65, and (ii) constituent concerns about the application of certain key provisions of ASC 810, including those in which the accounting and disclosures under ASC 810 do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. This Statement retains the scope of ASC 810 with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in ASC 860-10-65. ASC 810 shall be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Earlier application is prohibited.

Table of Contents**Operating Results**

The following table sets forth our consolidated income statement under Mexican Financial Reporting Standards for the years ended December 31, 2009, 2008 and 2007:

	2009	Year Ended December 31,		2007
		2009	2008	
		(in millions of U.S. dollars and Mexican pesos)		
Net sales	\$ 15,018	Ps. 196,103	Ps. 167,171	Ps. 147,069
Other operating revenues	72	930	851	487
Total revenues	15,090	197,033	168,022	147,556
Cost of sales	8,133	106,195	90,399	79,739
Gross profit	6,957	90,838	77,623	67,817
Operating expenses:				
Administrative	851	11,111	9,531	9,121
Selling	4,037	52,715	45,408	38,960
Total operating expenses	4,888	63,826	54,939	48,081
Income from operations	2,069	27,012	22,684	19,736
Other expenses, net	(269)	(3,506)	(2,374)	(1,297)
Interest expense	(398)	(5,197)	(4,930)	(4,721)
Interest income	43	565	598	769
Interest expense, net	(355)	(4,632)	(4,332)	(3,952)
Foreign exchange (loss) gain, net	(30)	(396)	(1,694)	691
Gain on monetary position, net	37	487	657	1,639
Market value gain (loss) on ineffective portion of derivative financial instrument	2	25	(1,456)	69
Comprehensive financing result	(346)	(4,516)	(6,825)	(1,553)
Income before income taxes	1,454	18,990	13,485	16,886
Income taxes	299	3,908	4,207	4,950
Consolidated net income	1,155	15,082	Ps. 9,278	Ps. 11,936
Net controlling interest income	759	9,908	6,708	8,511
Net noncontrolling interest income	396	5,174	2,570	3,425
Consolidated net income	1,155	15,082	Ps. 9,278	Ps. 11,936

Table of Contents

The following table sets forth certain operating results by reportable segment under Mexican Financial Reporting Standards for each of our segments for the years ended December 31, 2009, 2008 and 2007:

	Year Ended December 31				
	2009	2008	2007	Percentage Growth	
	(in millions of Mexican pesos at December 31, 2009, except for percentages)				
Net sales					
Coca-Cola FEMSA	Ps. 102,229	Ps. 82,468	Ps. 68,969	24.0%	19.6%
FEMSA Cerveza	45,899	41,966	39,284	9.4%	6.8%
FEMSA Comercio	53,549	47,146	42,103	13.6%	12.0%
Total revenues					
Coca-Cola FEMSA	102,767	82,976	69,251	23.9%	19.8%
FEMSA Cerveza	46,336	42,385	39,566	9.3%	7.1%
FEMSA Comercio	53,549	47,146	42,103	13.6%	12.0%
Cost of sales					
Coca-Cola FEMSA	54,952	43,895	35,876	25.2%	22.4%
FEMSA Cerveza	22,418	19,540	17,833	14.7%	9.6%
FEMSA Comercio	35,825	32,565	30,301	10.0%	7.5%
Gross profit					
Coca-Cola FEMSA	47,815	39,081	33,375	22.3%	17.1%
FEMSA Cerveza	23,918	22,845	21,733	4.7%	5.1%
FEMSA Comercio	17,724	14,581	11,802	21.6%	23.5%
Income from operations					
Coca-Cola FEMSA	15,835	13,695	11,486	15.6%	19.2%
FEMSA Cerveza	5,894	5,394	5,497	9.3%	(1.9)%
FEMSA Comercio	4,457	3,077	2,320	44.8%	32.6%
Depreciation⁽¹⁾					
Coca-Cola FEMSA	3,473	3,036	2,637	14.4%	15.1%
FEMSA Cerveza	1,927	1,748	1,637	10.2%	6.8%
FEMSA Comercio	819	663	543	23.5%	22.1%
Gross margin⁽²⁾					
Coca-Cola FEMSA	46.5%	47.1%	48.2%	(0.6) p.p. ⁽³⁾	(1.1) p.p. ⁽³⁾
FEMSA Cerveza	51.6%	53.9%	54.9%	(2.3) p.p.	(1.0) p.p.
FEMSA Comercio	33.1%	30.9%	28.0%	2.2 p.p.	2.9 p.p.
Operating margin⁽⁴⁾					
Coca-Cola FEMSA	15.4%	16.5%	16.6%	(1.1) p.p.	(0.1) p.p.
FEMSA Cerveza	12.7%	12.7%	13.9%	0.0 p.p.	(1.2) p.p.
FEMSA Comercio	8.3%	6.5%	5.5%	1.8 p.p.	1.0 p.p.

(1) Includes breakage of bottles.

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

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

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

Table of Contents

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

FEMSA Consolidated

Total Revenues

FEMSA's consolidated total revenues increased 17.3% to Ps. 197,033 million in 2009 compared to Ps. 168,022 million in 2008. All of FEMSA's operations—soft drinks, beer and retail—contributed positively to this revenue growth. Coca-Cola FEMSA's total revenues increased 23.9% to Ps. 102,767 million, driven by a 13.9% higher average price per unit case and a volume growth of 8.3%, from 2,242.8 million unit cases in 2008 to 2,428.6 million unit cases in 2009. FEMSA Comercio's revenues increased 13.6% to Ps. 53,549 million, mainly driven by the opening of 960 net new stores combined with an average increase of 1.3% in same-store sales. Total revenues at FEMSA Cerveza increased 9.3% over 2008 to Ps. 46,336 million, mainly driven by higher average price per hectoliter in local currency in all of our markets and volume increases in our export sales volume.

Gross Profit

Consolidated cost of sales increased 17.5% to Ps. 106,195 million in 2009 compared to Ps. 90,399 million in 2008. Approximately 70% of this increase came from Coca-Cola FEMSA as a result of cost pressures due to (i) the devaluation of local currencies in Coca-Cola FEMSA's main operations as applied to its dollar-denominated raw material costs, (ii) the higher cost of sweetener across its operations, (iii) the integration of REMIL and (iv) the third and final stage of the scheduled Coca-Cola Company concentrate price increase announced in 2006 in Mexico.

Consolidated gross profit increased 17.0% to Ps. 90,838 million in 2009 compared to Ps. 77,623 million in 2008 due to gross profit increases in all of our operations. Gross margin contracted by 0.1 percentage points, from 46.2% of consolidated total revenues in 2008 to 46.1% in 2009. Gross margin improvement at FEMSA Comercio partially offset raw-material cost pressures at FEMSA Cerveza and Coca-Cola FEMSA.

Income from Operations

Consolidated operating expenses increased 16.2% to Ps. 63,826 million in 2009 compared to Ps. 54,939 million in 2008. Approximately 74% of this increase resulted from additional operating expenses at Coca-Cola FEMSA due to higher labor costs and increased marketing expenses in certain of our divisions. FEMSA Comercio accounted for approximately 20% of the increase, resulting from accelerated store expansion, and FEMSA Cerveza accounted for the balance. As a percentage of total revenues, consolidated operating expenses decreased from 32.7% in 2008 to 32.4% in 2009.

Consolidated administrative expenses increased 16.6% to Ps. 11,111 million in 2009 compared to Ps. 9,531 million in 2008. As a percentage of total revenues, consolidated administrative expenses remained stable at 5.6% in 2009 compared with 5.7% in 2008, due to operating leverage driven by higher revenues achieved in all of FEMSA's operations.

Consolidated selling expenses increased 16.1% to Ps. 52,715 million in 2009 as compared to Ps. 45,408 million in 2008. Approximately 74% of this increase was attributable to Coca-Cola FEMSA and 22% to FEMSA Comercio. As a percentage of total revenues, selling expenses decreased 0.2 percentage points from 27.0% in 2008 to 26.8% in 2009.

We incur various expenses related to the distribution of our products that are accounted for in our selling expenses. During 2009 and 2008, our distribution costs amounted to Ps. 15,080 million and Ps. 12,135 million, respectively.

Consolidated income from operations increased 19.1% to Ps. 27,012 million in 2009 as compared to Ps. 22,684 million in 2008. This increase was driven by the results of Coca-Cola FEMSA and FEMSA Comercio, which accounted for 81% of the increase, and FEMSA Cerveza accounted for the balance. Consolidated operating margin

Table of Contents

increased 0.2 percentage points from 2008 levels, to 13.7% as a percentage of 2009 consolidated total revenues. Gross margin improvement at FEMSA Comercio, combined with expense containment initiatives across our beer operations, offset raw material pressures at the beverages operations.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide to them. These fees are recorded as administrative expenses in the respective business segments. Our subsidiaries' payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses.

Coca-Cola FEMSA

Total Revenues

Coca-Cola FEMSA total revenues increased 23.9% to Ps. 102,767 million in 2009, compared to Ps. 82,976 million in 2008 as a result of revenue growth in all of its divisions. Organic growth across Coca-Cola FEMSA's operations contributed more than 75% of incremental revenue. The acquisition of REMIL in Brazil and *Brisa* in Colombia together contributed to slightly less than 15% of this growth, while a positive exchange rate translation effect resulting from the depreciation of the peso against its operations' local currencies represented the balance.

Coca-Cola FEMSA's average price per unit case increased 13.9%, reaching Ps. 40.95 in 2009 as compared to Ps. 35.94 in 2008, reflecting higher average prices in all of Coca-Cola FEMSA's territories resulting from selective price increases implemented during the year across geographies.

Coca-Cola FEMSA's total sales volume increased 8.3% to 2,428.6 million unit cases in 2009, compared to 2,242.8 million unit cases in 2008. Excluding the acquisitions of REMIL and *Brisa*, total sales volume increased 5.1% to reach 2,357.0 million unit cases. Organic volume growth resulted from increases in sparkling beverages, which accounted for approximately 45% of incremental volumes, mainly driven by the *Coca-Cola* brand. The still beverage category, mainly driven by the Jugos del Valle line of business in its main operations, contributed with less than 45% of the incremental volumes and the bottled water category represented the balance.

Gross Profit

Cost of sales increased 25.2% to Ps. 54,952 million in 2009 compared to Ps. 43,895 million in 2008, as a result of cost pressures due to (i) the devaluation of local currencies in Coca-Cola FEMSA's main operations in Mexico, Colombia and Brazil, as applied to its U.S. dollar-denominated raw material costs, (ii) the higher cost of sweetener across its operations, (iii) the integration of REMIL and (iv) the third and final stage of the scheduled Coca-Cola Company concentrate price increase announced in 2006 in Mexico. All of these items were partially offset by lower resin costs. Gross profit increased 22.3% to Ps. 47,815 million in 2009, as compared to 2008, driven by gross profit growth across all of Coca-Cola FEMSA's divisions, however Coca-Cola FEMSA's gross margin decreased 0.6 percentage points to 46.5% in 2009.

Income from Operations

Operating expenses increased 26.0% to Ps. 31,980 million in 2009, mainly as a result of (i) higher labor costs in Venezuela, (ii) increased marketing investments in the Mexico division, (iii) the integration of REMIL in Brazil and (iv) increased marketing expenses in the Latincentro division, mainly due to the integration of the *Brisa* portfolio in Colombia and the continued expansion of the Jugos del Valle line of products in Colombia and Central America. As a percentage of sales, operating expenses increased to 31.1% in 2009 from 30.6% in 2008.

Income from operations increased 15.6% to Ps. 15,835 million in 2009, as compared to Ps. 13,695 million in 2008. Increases in operating income from the Latincentro division, including Venezuela, accounted for approximately 50% of this growth, while operating income growth in the Mercosur division accounted for more than 40% of incremental operating income. Operating margin was 15.4% in 2009, a decline of 110 basis points as compared to 2008.

Table of Contents**FEMSA Cerveza***Total Revenues*

FEMSA Cerveza total revenues increased 9.3% to Ps. 46,336 million in 2009 as compared to Ps. 42,385 million in 2008, mainly due to higher average prices per hectoliter. Beer sales increased 8.9% to Ps. 42,491 million in 2009 compared to Ps. 39,014 million in 2008, representing 91.7% of total revenues in 2009. Mexico beer revenues represented 66.0% of total revenues in 2009 compared to 68.9% in 2008. Brazil beer revenues represented 15.5% of total revenues in 2009, up from 14.6% in 2008. Export beer revenues represented 10.2% of total beer revenues in 2009, up from 8.5% in 2008.

Mexico sales volume decreased 1.7% to 26.929 million hectoliters in 2009 in the context of extreme economic headwinds, particularly affecting our key territories. The *Tecate* family and *Indio* brands once again delivered strong growth. Mexico price per hectoliter increased 6.4% to Ps. 1,135 in 2009, as a result of price increases implemented during the second quarter of 2009, in addition to the increases carried out late in the third quarter of 2008.

Brazil sales volume decreased 1.3% to 10.049 million hectoliters in 2009 compared to 10.181 million hectoliters in 2008. Average price per hectoliter in Brazil increased 17.9% over 2008 in Mexican peso terms to Ps. 715.8 in 2009 due to a positive exchange rate translation effect, driven by the depreciation of the peso against the Brazilian Real. In Brazilian Real terms, average price per hectoliter increased 4.8% percent, reflecting price increases implemented at the beginning of the year.

Export sales volumes increased 2.6% in 2009 compared to 2008, reaching 3.570 million hectoliters in 2009 compared to 3.479 million hectoliters in 2008. This percentage increase outperformed the United States import beer category by a significant margin. The increase was primarily driven by our *Dos Equis* brand in the United States and by our *Sol* brand in other key markets. Export price per hectoliter in pesos increased 27.9% compared to 2008 to Ps. 1,326.7 in 2009, reflecting the peso's depreciation against the U.S. dollar. In U.S. dollar terms, price per hectoliter improved by 4.3% to US\$ 98.0 due to moderate price increases and a favorable brand mix shift from *Tecate* to higher-priced *Dos Equis*.

Gross Profit

Cost of sales increased 14.7% to Ps. 22,418 million in 2009 compared to Ps. 19,540 million in 2008, ahead of the 9.3% of total revenue growth in the year. This increase was mainly driven by (i) the depreciation of the peso against the U.S. dollar applied to the unhedged portion of input costs denominated in foreign currencies, (ii) year-over-year increases in the cost of raw materials, particularly in grains and, to a lesser extent, aluminum, and (iii) the translation effect of the depreciation of the peso against the Brazilian Real. Gross profit reached Ps. 23,918 million in 2009, an increase of 4.7% as compared to Ps. 22,845 million in 2008. Gross margin decreased 2.3 percentage points from 53.9% in 2008 to 51.6% in 2009.

Income from Operations

Operating expenses increased 3.3% to Ps. 18,024 million in 2009 compared to Ps. 17,451 million in 2008. However, as percentage of total revenues, operating expenses decreased to 38.9% in 2009 as compared to 41.2% in 2008 mainly due to continued rationalization and cost containment efforts at the selling expense level in Mexico and Brazil. Administrative expenses increased 3.1% to Ps. 4,221 million in 2009 compared to Ps. 4,093 million in 2008. Selling expenses increased 3.3% to Ps. 13,803 million in 2009 as compared to Ps. 13,358 million in 2008. Income from operations increased 9.3% to Ps. 5,894 million in 2009. Operating margin remained flat as compared to 2008 at 12.7% of consolidated total revenues. Operating expense containment offset the contraction experienced at the gross margin level.

Table of Contents**FEMSA Comercio***Total Revenues*

FEMSA Comercio total revenues increased 13.6% to Ps. 53,549 million in 2009 compared to Ps. 47,146 million in 2008, primarily as a result of the opening of 960 net new stores during 2009, together with an average increase of same-store sales of 1.3%. As of December 31, 2009, there were a total of 7,329 stores in Mexico and five stores in Colombia. FEMSA Comercio same-store sales increased an average of 1.3% compared to 2008, driven by a 3.3% increase in store traffic, which more than offset a slight reduction of 1.6% in average ticket. As was the case in 2008, the same-store sales, ticket and traffic dynamics continued to reflect the effects from the continued mix shift from physical prepaid wireless air-time cards to the sale of electronic air-time, for which only the margin is recorded, rather than the full amount of the electronic recharge. As 2009 progressed, this effect diminished.

Gross Profit

Cost of sales increased 10.0% to Ps. 35,825 million in 2009, below total revenue growth, compared with Ps. 32,565 million in 2008. As a result, gross profit reached Ps. 17,724 million in 2009, which represented a 21.6% increase from 2008. Gross margin expanded 2.2 percentage points to reach 33.1% of total revenues. This increase reflects more effective collaboration and execution with our key supplier partners, combined with a more efficient use of promotion-related marketing resources and a positive mix shift due to the growth of higher-margin categories and, to a lesser extent, the continued shift towards electronic air-time recharges described above.

Income from Operations

Operating expenses increased 15.3% to Ps. 13,267 million in 2009 compared with Ps. 11,504 million in 2008, largely driven by the growing number of stores, and partially offset by broad expense-containment initiatives at the store level and by scale-driven efficiencies. Administrative expenses increased 15.1% to Ps. 959 million in 2009, compared with Ps. 833 million in 2008, however, as a percentage of sales remained stable at 1.8%. Selling expenses increased 15.3% to Ps. 12,308 in 2009 compared with Ps. 10,671 million in 2008. Income from operations increased 44.8% to Ps. 4,457 million in 2009 compared with Ps. 3,077 million in 2008, resulting in an operating margin expansion of 1.8 percentage points to 8.3% as a percentage of total revenues for the year, compared with 6.5% in 2008. This all-time high operating margin was driven by gross margin expansion, which more than offset the increase in operating expenses.

FEMSA Consolidated Net Income*Other Expenses*

Other expenses include employee profit sharing, which we refer to as PTU, participation in affiliated companies, impairment of long-lived assets, contingencies, as well as their subsequent interest and penalties, severance payments derived from restructuring programs and all other non-recurring expenses related to activities different from the main activities of the Company and that are not recognized as part of the comprehensive financing result. During 2009, other expenses increased to Ps. 3,506 million from Ps. 2,374 million in 2008, driven mainly by the one-time effect of the tax amnesty program offered by the Brazilian tax authorities and certain labor obligations provisions related to employee vacations, as well as by increases in PTU.

Comprehensive Financing Result

Net interest expense reached Ps. 4,632 million in 2009 compared with Ps. 4,332 million in 2008. Foreign exchange recorded a loss of Ps. 396 million in 2009 from a loss of Ps. 1,694 million in 2008, reflecting an important improvement due to the significant loss reported in 2008, driven by lower foreign exchange losses in 2009 due to the lower depreciation of local currencies in our markets against the U.S. dollar. Additionally, the monetary position represented a lower gain of Ps. 487 million in 2009 compared to Ps. 657 million in 2008, due to a lower liability monetary position in 2009 (monetary liabilities less monetary assets) and a lower inflation rate in countries in which inflationary adjustments are applied.

Table of Contents

The market value of the ineffective portion of our derivative financial instruments reflects a shift to a gain of Ps. 25 million in 2009 from a loss of Ps. 1,456 million in 2008, reflecting an improvement due to the significant loss reported in 2008, driven by losses in certain derivative instruments that do not meet hedging criteria for accounting purposes, due to mark-to-market recognition in our U.S. dollar cross-swap.

Comprehensive financing result decreased 33.8% in 2009 to Ps. 4,516 million, reflecting an important improvement due to the significant loss reported in 2008, driven by lower foreign exchange losses in 2009 due to the lower depreciation of local currencies in our markets against the U.S. dollar and a shift to gains in certain derivative instruments during the year, as mentioned above.

Taxes

Our accounting provision for income taxes in 2009 was Ps. 5,973 million excluding a one-time benefit of Ps. 2,066 million under the tax amnesty program offered by the Brazilian tax authorities in 2009 due to the utilization of tax losses which we had reserved but we did not previously have sufficient certainty of its recoverability, resulting in a net accounting provision for income taxes in 2009 of Ps. 3,908 million, compared to Ps. 4,207 million in 2008, resulting in an effective tax rate of 20.6% in 2009 as compared with 31.2% in 2008.

Net Income

Net income increased 62.6% to Ps. 15,082 million in 2009 compared to Ps. 9,278 million in 2008. These results were driven by (i) operating income growth during the year, (ii) a significant improvement in the comprehensive financing result driven by the factors mentioned above and (iii) the one-time benefit that resulted from the Brazilian tax amnesty program in 2009.

Net controlling interest income amounted to Ps. 9,908 million in 2009 compared to Ps. 6,708 million in 2008, an increase of 47.7%. Net controlling income in 2009 per one FEMSA Share was Ps. 2.77 (US\$2.12 per ADS).

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Beginning on January 1, 2008, in accordance with changes to NIF B-10 under the Mexican Financial Reporting Standards, we discontinued the use of inflation accounting for our subsidiaries that operate in non-inflationary countries where cumulative inflation for the three preceding years was less than 26%. For comparison purposes, the figures prior to 2008 have been restated in Mexican pesos with purchasing power as of December 31, 2007, taking into account local inflation for each country with reference to the consumer price index. Local currencies have been converted into Mexican pesos using official exchange rates published by the local central bank of each country. See Item 3. Key Information Selected Consolidated Financial Data.

FEMSA Consolidated

Total Revenues

Our consolidated total revenues increased 13.9% to Ps. 168,022 million in 2008 compared to Ps. 147,556 million in 2007. All of our operations soft drinks, beer and retail contributed positively to this revenue growth. Coca-Cola FEMSA's total revenues increased 19.8% to Ps. 82,976 million, driven by a 12.5% higher average price per unit case and a volume growth of 5.8% as compared to 2007, from 2,120.8 million unit cases in 2007 to 2,242.8 million unit cases in 2008. FEMSA Comercio's revenues increased 12.0% to Ps. 47,146 million. The net opening of 811 new stores combined with stable same store sales drove this revenue growth. Total revenues at FEMSA Cerveza increased 7.1% compared to 2007 to Ps. 42,385 million, mainly driven by a higher average price per hectoliter, primarily in Mexico, and volume increases in our three main markets, Mexico, the U.S., and Brazil.

Table of Contents

Gross Profit

Consolidated cost of sales increased 13.4% to Ps. 90,399 million in 2008 compared to Ps. 79,739 million in 2007. Approximately 75.2% of this increase came from Coca-Cola FEMSA as a result of cost pressures from the depreciation of local currencies against the U.S. dollar in its main operations as applied to its dollar-denominated raw material costs, as well its integration of the Jugos del Valle line of business in Mexico, which carries a higher cost of sales. FEMSA Comercio accounted for 21.2% of this increase as a result of its rapid pace of store expansion.

Consolidated gross profit increased 14.5% to Ps. 77,623 million in 2008 compared to Ps. 67,817 million in 2007 due to gross profit increases in all of our operations. Gross margin improved by 0.2 percentage points as compared to 2007, from 46.0% of consolidated total revenues in 2007 to 46.2% in 2008. Gross margin improvement at FEMSA Comercio more than offset raw material prices pressure at FEMSA Cerveza and Coca-Cola FEMSA, and helped offset the depreciation of local currencies against the U.S. dollar as applied to our U.S. dollar-denominated costs, resulting in a net overall gross margin improvement.

Income from Operations

Consolidated operating expenses increased 14.3% to Ps. 54,939 million in 2008 compared to Ps. 48,081 million in 2007. Approximately 50% of this increase resulted from additional operating expenses at Coca-Cola FEMSA in connection with the integration of new operations in Brazil, together with incremental expenses in its Latincentro division due to higher labor costs. FEMSA Comercio accounted for 30% of the increase, resulting from the accelerated store expansion. FEMSA Cerveza accounted for the balance. As a percentage of total revenues, consolidated operating expenses remained stable at 32.7% in 2008 compared with 32.6% in 2007.

Consolidated administrative expenses increased 4.5% to Ps. 9,531 million in 2008 compared to Ps. 9,121 million in 2007. However, as a percentage of total revenues, consolidated administrative expenses decreased 0.5 percentage points to 5.7% in 2008 compared with 6.2% in 2007, due to operating leverage driven by higher revenues achieved in all of our operations.

Consolidated selling expenses increased 16.6% to Ps. 45,408 million in 2008 as compared to Ps. 38,960 million in 2007. Approximately 49% of this increase came from Coca-Cola FEMSA, while 30% came from FEMSA Comercio and the remainder of the balance from FEMSA Cerveza. As a percentage of total revenues, selling expenses increased 0.6 percentage points to 27.0% in 2008 compared to 26.4% in 2007.

We incur various expenses related to the distribution of our products that are accounted for in our selling expenses. During 2008 and 2007, our distribution costs amounted to Ps. 12,135 million and Ps. 10,601 million, respectively.

Consolidated income from operations increased 14.9% to Ps. 22,684 million in 2008 compared to Ps. 19,736 million in 2007, driven by the results at Coca-Cola FEMSA and FEMSA Comercio, which more than offset the decrease at FEMSA Cerveza. Consolidated operating margin increased 0.1 percentage points from 2007 levels to 13.5% as a percentage of 2008 consolidated total revenues. Operating margin improvements at FEMSA Comercio combined with a stable margin at Coca-Cola FEMSA, offset the margin pressure at FEMSA Cerveza, which was driven by higher raw material costs and operating expenses.

Some of our subsidiaries pay management fees to us in consideration for corporate services we provide to them. These fees are recorded as administrative expenses in the respective business segments. Our subsidiaries' payments of management fees are eliminated in consolidation and, therefore, have no effect on our consolidated operating expenses.

Table of Contents**Coca-Cola FEMSA***Total Revenues*

Coca-Cola FEMSA total revenues increased 19.8% to Ps. 82,976 million in 2008, compared to Ps. 69,251 million in 2007, as a result of growth in all of its divisions. Growth in Coca-Cola FEMSA's Latincentro division was mainly driven by incremental pricing, growth in its Mexico division was mainly driven by incremental volume and growth in its Mercosur division was mainly driven by the integration of REMIL. The Latincentro division, including Venezuela, accounted for more than 45% of Coca-Cola FEMSA's revenue growth. The Mexico and Mercosur divisions, excluding the effect of the REMIL acquisition in Brazil, represented close to 30% of incremental revenue growth. REMIL contributed more than 20% of incremental revenues and a positive net foreign exchange gain, derived from translating local currencies from the countries in which Coca-Cola FEMSA operates into Mexican pesos (which we refer to as a translation effect) represented most of the balance.

Coca-Cola FEMSA's average price per unit case increased 12.5%, reaching Ps. 35.93 in 2008 as compared to Ps. 31.95 in 2007. Price increases implemented in most of Coca-Cola FEMSA's territories and the addition of the Jugos del Valle line of business, which carries higher average prices per unit case, accounted for this growth.

Coca-Cola FEMSA's total sales volume reached 2,242.8 million unit cases in 2008, compared to 2,120.8 million unit cases in 2007, an increase of 5.8%. Excluding REMIL, total sales volume increased 2.6% to reach 2,176.7 million unit cases. Coca-Cola FEMSA's water business, mainly driven by the bulk water business in Mexico, and still beverages, mainly driven by the introduction of Jugos del Valle and the new products derived from that line of business, accounted for approximately 80% of these increases in sales volume. Sparkling beverage sales, mainly driven by the *Coca-Cola* brand and the strong performance of *Coca-Cola Zero* outside of Mexico represented the balance.

Gross Profit

Coca-Cola FEMSA cost of sales increased 22.4% to Ps. 43,895 million in 2008 compared to Ps. 35,876 million in 2007, as a result of cost pressures related to the devaluation of local currencies in most of Coca-Cola FEMSA's operations as applied to its U.S. dollar-denominated raw material costs. The integration of REMIL and lower profitability from the Jugos del Valle line of business in Mexico, which was expected in 2008 because of the Jugos del Valle agreement to retain profits at the joint venture company in 2008 for reinvestment, also contributed to this increase. Gross profit increased 17.1% to Ps. 39,081 million in 2008 compared to 2007, driven by a 40.8% increase in its Mercosur division, a 27.6% increase in its Latincentro division, including Venezuela, and a 1.8% increase in its Mexico division. In spite of this increase in gross profit, gross margin decreased 1.1 percentage points to 47.1% in 2008.

Cost of sales includes raw materials, in particular concentrate and sweeteners, packaging materials, depreciation expenses attributable to production facilities, wages and other employment expenses associated with the labor force employed at production facilities, as well as certain overhead expenses. Concentrate prices are determined as a percentage of the retail price of products in the local currency, net of applicable taxes. Packaging materials, mainly PET and aluminum, and high fructose corn syrup, used as sweetener in some countries, are denominated in U.S. dollars.

Income from operations

Operating expenses in absolute terms increased 16.0% compared to 2007 to Ps. 25,386 million, mainly as a result of salary increases in excess of inflation in some of the countries in which Coca-Cola FEMSA operates, and higher operating expenses in the Mercosur division, mainly due to the integration of REMIL, that were partially offset by lower marketing investment in some of its operations. As a percentage of sales, operating expenses declined from 31.6% in 2007 to 30.6% in 2008, as a result of higher revenue growth that compensated for higher operating expenses.

Table of Contents

Income from operations increased 19.2% to Ps. 13,695 million in 2008, as compared to Ps. 11,486 million in 2007. Coca-Cola FEMSA's Mercosur and Latincentro divisions, including Venezuela, each accounted for more than 40% of this increase. Operating margin remained almost flat at 16.5% in 2008 compared to 16.6% in 2007.

FEMSA Cerveza*Total Revenues*

FEMSA Cerveza total revenues increased 7.1% to Ps. 42,385 million in 2008 as compared to Ps. 39,566 million in 2007. Beer sales increased 7.0% to Ps. 39,014 million in 2008 compared to Ps. 36,457 million in 2007 and represented 92.0% of total revenues in 2008. Sales from FEMSA Cerveza's packaging division accounted for 8% of total revenues. Higher average prices per hectoliter accounted for approximately 55 percent of total revenue growth, while incremental volumes were approximately 36 percent. The balance came from other revenues. Mexico beer revenues represented 68.9% of total revenues in 2008 compared to 68.8% in 2007. Brazil beer revenues represented 14.6% of total revenues in 2008, down slightly from 14.9% in 2007. Export beer revenues remained almost flat at 8.5% of total revenues in 2008, compared to 8.4% in 2007.

Mexico sales volume increased 1.6% to 27.393 million hectoliters in 2008. This increase was mainly driven by the *Tecate* and *Indio* brand families throughout the country together with the successful introduction of line extensions such as *Sol Limón y Sal*. Mexico price per hectoliter increased 5.7% to Ps. 1,066.8 in 2008, as a result of incremental volumes brought under FEMSA Cerveza's own distribution network, which for the year stands at 90% of its total domestic volume. Price increases implemented during the year also contributed to this effect.

Brazil sales volume increased 3.9% to 10.181 million hectoliters in 2008 compared to 9.795 million hectoliters in 2007, outpacing the growth of the Brazilian beer industry. During the year, FEMSA Cerveza's *Sol*, *Kaiser* and *Bavaria* brands accounted for most of the growth. Average price per hectoliter in Brazil increased 0.8% over 2007 in Mexican peso terms to Ps. 607.2 in 2008. In Brazilian real terms, average price per hectoliter increased 2.0% percent, reflecting price increases implemented late in the year.

Export sales volumes increased 9.3% in 2008 compared to 2007 reaching 3.479 million hectoliters compared to 3.183 million hectoliters in 2007, primarily driven by increased demand for FEMSA Cerveza's *Dos Equis* and *Tecate* brands in the United States and for its *Sol* brand in other key markets. Export price per hectoliter in Mexican pesos decreased 1.1% compared to 2007 to Ps. 1,037.0 in 2008. In U.S. dollar terms, price per hectoliter improved by 0.2% to US\$94.0, due to moderate price increases implemented during the year, which more than offset changes in packaging mix.

Gross Profit

Cost of sales increased 9.6% to Ps. 19,540 million in 2008 compared to Ps. 17,833 million in 2007, ahead of the 7.1% total revenue growth in the year. This increase was mainly driven by higher raw material costs, particularly for aluminum and grains, the Mexican peso depreciation of 25% as applied to its U.S. dollar-denominated costs and to a lesser extent the 2.8% total volume growth, which more than offset operating efficiencies achieved during the year. Gross profit reached Ps. 22,845 million in 2008, an increase of 5.1% as compared to Ps. 21,733 million in 2007. Gross margin decreased 1.0 percentage points from 54.9% in 2007 to 53.9% in 2008.

Income from operations

Operating expenses increased 7.5% to Ps. 17,451 million in 2008 compared to Ps. 16,236 million in 2007. However, as percentage of total revenues, operating expenses remained almost flat at 41.2% as compared to 41.0% in 2007. Administrative expenses decreased 4.7% to Ps. 4,093 million in 2008 compared to Ps. 4,295 million in 2007 due to expense rationalization together with a decline in capitalized investments in the ERP system, which have been fully amortized. Selling expenses increased 11.9% to Ps. 13,358 million in 2008 as compared to Ps. 11,941 million in 2007, mainly due to continuous marketing investment in channel development and brand-building activities behind *Sol* and *Tecate* in Mexico as well as for *Dos Equis* and *Tecate* in the United States and for *Kaiser*

Table of Contents

and *Sol* in Brazil. The increase also resulted from incremental volumes that we brought under FEMSA Cerveza's direct distribution network. Income from operations decreased 1.9% to Ps. 5,394 million in 2008, to 12.7% of consolidated total revenues, reflecting mainly the decline in gross margin.

FEMSA Comercio*Total Revenues*

FEMSA Comercio total revenues increased 12.0% to Ps. 47,146 million in 2008 compared to Ps. 42,103 million in 2007, primarily as a result of the opening of 811 net new stores during 2008 together with stable same-store sales. As of December 31, 2008, there were a total of 6,374 stores in Mexico. FEMSA Comercio same-store sales were virtually flat, up an average of 0.4% compared to 2007. A 13.0% increase in store traffic, which was driven by a broader mix of products and services, more than offset a decrease of 11.2% in average customer ticket. During the year, store traffic and ticket dynamics reflect the mix shift from prepaid wireless phone cards to the sale of electronic air-time, for which only the margin is recorded, not the full amount of revenues coming from the air-time recharge.

Gross Profit

Cost of sales increased 7.5% to Ps. 32,565 million in 2008, below total revenue growth, compared with Ps. 30,301 million in 2007. As a result, gross profit reached Ps. 14,581 million in 2008, which represented a 23.5% increase from 2007. Gross margin expanded 2.9 percentage points to reach 30.9% of total revenues. A significant portion of this improvement resulted from the shift towards electronic air-time recharges as described above. The balance came from growth in higher-margin categories such as ready-to-drink coffee and alternative beverages, among others, as well as better pricing strategies and improved commercial terms with supplier partners.

Income from operations

Operating expenses increased 21.3% to Ps. 11,504 million in 2008 compared with Ps. 9,482 million in 2007. Administrative expenses increased 10.9% to Ps. 833 million in 2008 compared with Ps. 751 million in 2007, however, as percentage of sales remained stable at 1.8%. Selling expenses increased 22.2% to Ps. 10,671 in 2008 compared with Ps. 8,731 million in 2007, mainly driven by higher energy costs at the store level and expenses related to the strengthening of FEMSA Comercio's organizational structure, in accordance with management plans. Income from operations increased 32.6% to Ps. 3,077 million in 2008 compared with Ps. 2,320 million in 2007, resulting in an operating margin expansion of 1.0 percentage point to 6.5% as a percentage of total revenues for the year, compared with 5.5% in 2007. This all-time high operating margin was driven by gross margin expansion which more than offset the increase in operating expenses.

FEMSA Consolidated Net Income*Other Expenses*

Other expenses include PTU, impairment of long-lived assets, contingencies, severance payments derived from restructuring programs, participation in affiliated companies, gains or losses on sales of fixed assets, and all other non-recurring expenses related to activities, other than our main activities, that are not recognized as part of the Comprehensive financing result. During 2008, other expenses increased to Ps. 2,374 million from Ps. 1,297 million in 2007, driven mainly by increases in employee profit sharing expenses and in impairment charges of long-lived assets, together with strategic restructuring programs mainly at Coca-Cola FEMSA during 2008.

Comprehensive Financing Result

Net interest expense reached Ps. 4,332 million in 2008 compared with Ps. 3,952 million in 2007, mainly driven by higher interest expense derived from an increase in our average total debt rate during the year.

Table of Contents

Foreign exchange recorded a loss of Ps. 1,694 million in 2008 from a gain of Ps. 691 million in 2007, due to the depreciation of the local currencies in our markets against the U.S. dollar, as applied to our U.S. dollar-denominated liability position.

Monetary position amounted to a lower gain of Ps. 657 million in 2008 compared to Ps. 1,639 million in 2007, reflecting changes in Mexican Financial Reporting Standards, as inflationary adjustments are no longer applied to the vast majority of our liability positions.

The market value of the ineffective portion of our derivative financial instruments reflects a shift to a loss of Ps. 1,456 million in 2008 from a gain of Ps. 69 million in 2007, driven by the recognition of mark-to-market losses in our U.S. dollar cross currency swaps and to a lesser extent, the unwinding of certain commodity hedges that do not meet hedging criteria for accounting purposes.

Taxes

The accounting provision for income taxes in 2008 was Ps. 4,207 million compared to Ps. 4,950 million in 2007, resulting in an effective tax rate of 31.2% in 2008 compared with 29.3% in 2007.

Net Income

Net income decreased 22.3% to Ps. 9,278 million in 2008 compared to Ps. 11,936 million in 2007. This decline resulted from our higher comprehensive financing result due to the factors mentioned above, which more than offset operating income growth.

Net controlling interest income amounted to Ps. 6,708 million in 2008 compared to Ps. 8,511 million in 2007, a decline of 21.2%. Net controlling income in 2008 per one FEMSA Unit was Ps. 1.87 (\$1.36 per ADS).

Liquidity and Capital Resources

Liquidity

Each of our sub-holding companies generally finances its operational and capital requirements on an independent basis. As of December 31, 2009, 68.2% of our outstanding consolidated total indebtedness was at the level of our sub-holding companies. This structure is attributable, in part, to the inclusion of third parties in the capital structure of Coca-Cola FEMSA. Currently, we expect to continue to finance our operations and capital requirements primarily at the level of our sub-holding companies. Nonetheless, we may decide to incur indebtedness at our holding company in the future to finance the operations and capital requirements of our subsidiaries or significant acquisitions, investments or capital expenditures. As a holding company, we depend on dividends and other distributions from our subsidiaries to service our indebtedness.

We continuously evaluate opportunities to pursue acquisitions or engage in joint ventures or other transactions. We would expect to finance any significant future transactions with a combination of cash from operations, long-term indebtedness and capital stock.

The principal source of liquidity of each sub-holding company has generally been cash generated from operations. We have traditionally been able to rely on cash generated from operations because a significant majority of the sales of Coca-Cola FEMSA, FEMSA Cerveza and FEMSA Comercio are on a cash or short-term credit basis, and FEMSA Comercio's OXXO stores are able to finance a significant portion of their initial and ongoing inventories with supplier credit. Our principal use of cash has generally been for capital expenditure programs, debt repayment and dividend payments.

In 2008, we adopted NIF B-2 (Statement of Cash Flows) pursuant to which we present cash inflows and outflows in nominal currency for the year ended December 31, 2008. NIF B-2 replaces the statement of changes in financial position, which we still present for the year ended December 31, 2007, and which includes inflation effects and unrealized foreign exchange effects. The application of NIF B-2 is prospective, and therefore the cash flow

Table of Contents

statement for the years ended December 31, 2009 and 2008, is not comparable to the statements of changes in financial position for the year ended December 31, 2007.

The following is a summary of the principal uses of cash for the years ended December 31, 2009 and 2008, from our consolidated statement of cash flows:

Principal Sources and Uses of Cash

Years ended December 31, 2009 and 2008

(in millions of Mexican pesos)

	2009	2008
Net cash flows provided by operating activities	Ps. 30,907	Ps. 23,064
Net cash flows used in investing activities ⁽¹⁾	(15,834)	(18,060)
Net cash flows used in financing activities ⁽²⁾	(7,711)	(6,160)
Dividends paid	(2,255)	(2,065)

(1) Includes property, plant and equipment, investment in shares and other assets.

(2) Includes dividends declared and paid.

The following table summarizes the sources and uses of cash for the year in the period ended December 31, 2007, from our consolidated statements of changes in financial position:

Principal Sources and Uses of Cash

Year ended December 31, 2007⁽¹⁾

(in millions of Mexican pesos)

	2007
Net resources generated by operating activities	Ps. 18,022
Net resources used in investing activities ⁽²⁾	(12,437)
Net resources used in financing activities ⁽³⁾	(3,901)
Dividends declared and paid	(1,909)

(1) Expressed in millions of Mexican pesos as of December 31, 2007.

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

(3) Includes dividends declared and paid.

Our sub-holding companies generally incur short-term indebtedness in the event that they are temporarily unable to finance operations or meet any capital requirements with cash from operations. A significant decline in the business of any of our sub-holding companies may affect the sub-holding company's ability to fund its capital requirements. A significant and prolonged deterioration in the economies in which we operate or in our businesses may affect our ability to obtain short-term and long-term credit or to refinance existing indebtedness on terms satisfactory to

us.

We have financed significant acquisitions, principally Coca-Cola FEMSA's acquisition of Coca-Cola Buenos Aires in 1994 and its acquisition of Panamco in May 2003 and our acquisition of the 30% interest in FEMSA Cerveza owned by affiliates of InBev in August 2004, capital expenditures and other capital requirements that could not be financed with cash from operations by incurring long-term indebtedness and through the issuance of equity.

Our consolidated total indebtedness as of December 31, 2009, was Ps. 43,663 million compared to Ps. 43,858 million as of December 31, 2008. Short-term debt (including maturities of long-term debt) and long-term debt were Ps. 8,853 million and Ps. 34,810 million, respectively, as of December 31, 2009, as compared to Ps. 11,648 million and Ps. 32,210 million, respectively, as of December 31, 2008. Cash, cash equivalents and

Table of Contents

financial marketable securities were Ps. 17,636 million as of December 31, 2009, as compared to Ps. 9,110 million as of December 31, 2008.

We believe that our sources of liquidity as of December 31, 2009, were adequate for the conduct of our sub-holding companies' businesses and that we will have sufficient funds available to meet our expenditure demands and financing needs in 2010 and in the following years.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Table of Contents**Contractual Obligations**

The table below sets forth our contractual obligations as of December 31, 2009.

	Less than 1 year	1 - 3 years	Maturity 3 - 5 years	In excess of 5 years	Total
	(in millions of Mexican pesos)				
Long-Term Debt⁽¹⁾					
Mexican pesos	Ps. 4,931	Ps. 18,217	Ps. 7,158	Ps. 5,789	36,095
U.S. dollars	95	985	2,092		3,172
Argentine pesos		69			69
Capital Leases					
U.S. dollars	11	4			15
Interest payments⁽²⁾					
Mexican pesos	1,981	2,712	685	325	5,703
U.S. dollars	42	70	9		121
Argentine pesos	14	10			24
Interest rate swaps and cross currency swaps⁽³⁾					
Mexican pesos	661	1,136	369	321	2,487
U.S. dollars	22	50	4		76
Unhedged cross currency swaps		248	107		355
Operating leases					
Mexican pesos	1,607	2,932	2,544	6,182	13,265
U.S. dollars	106	89	27		222
Brazilian reais	151	259	43	16	469
Commodity price contracts					
U.S. dollars	2,767	2,260	172		5,199
Purchase obligations					
	72				72
Expected benefits to be paid for pension plans, seniority premiums, post-retirement medical benefits and severance indemnities					
	663	1,062	1,075	2,895	5,695
Other long-term liabilities⁽⁴⁾					
	464	1,316	121	7,486	9,537

(1) Includes effect of cross currency swap, pursuant to which US\$200 million in U.S. dollar denominated long-term debt is swapped for Mexican pesos in the amount of Ps. 2,115 million.

(2) Interest was calculated using long-term debt as of and interest rate amounts in effect on December 31, 2009 without considering interest rate swaps agreements. The debt and applicable interest rates in effect are shown in note 17 to our audited consolidated financial statements. Liabilities denominated in U.S. dollars were translated to Mexican pesos at an exchange rate of Ps. 13.0587 per U.S. dollar, the exchange rate quoted to us by dealers for the settlement of obligations in foreign currencies on December 31, 2009.

(3) Reflects the amount of future payments that we would be required to make. The amounts were calculated by applying the difference between the interest rate swaps and cross currency swaps and the nominal interest rates contracted to long-term debt as of December 31, 2009, and the market value of the unhedged cross currency swaps.

(4) Other long-term liabilities includes contingent liabilities and others. Other long-term liabilities additionally reflects those liabilities whose maturity date is undefined and depends on a series of circumstances out of our control, therefore these liabilities have been considered to have a maturity of more than five years.

As of December 31, 2009, Ps. 8,853 million of our total consolidated indebtedness was short-term debt (including maturities of long-term debt).

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As of December 31, 2009, our consolidated average cost of borrowing, after giving effect to the cross currency and interest rate swaps, was approximately 7.8%, a decrease of 1.6 percentage points compared to 9.4% in 2008. As of December 31, 2009, after giving effect to cross currency swaps, 86.9% of our total consolidated indebtedness was denominated and payable in Mexican pesos, 7.4% in U.S. dollars, 1.1% in Colombian pesos, 2.9% in Argentine pesos, and the remaining 1.7% in Venezuelan bolívares fuertes.

Table of Contents**Overview of Debt Instruments**

The following table shows the allocations of total debt of our company as of December 31, 2009:

	Total Debt Profile of the Company				Total Debt
	FEMSA and others	Coca-Cola FEMSA	FEMSA Cerveza	FEMSA Comercio	
Short-term Debt					
<i>Mexican pesos:</i>					
Bank loans	1,400				1,400
<i>Argentine pesos:</i>					
Bank loans		1,179			1,179
<i>Colombian pesos</i>					
Bank loans		496			496
<i>Venezuelan bolívares fuertes:</i>					
Bank loans		741			741
Long-term Debt⁽¹⁾					
<i>Mexican pesos:</i>					
Bank loans	9,512	10,550	10,555		30,617
Units of Investment (UDI)	2,964				2,964
<i>U.S. dollars:</i>					
Bank loans		2,873	3,309		6,182
Leasing		15			15
<i>Argentine pesos:</i>					
Bank Loans		69			69
Total	Ps. 13,876	Ps. 15,923	Ps. 13,864		Ps. 43,663
Average Cost⁽²⁾					
Mexican pesos	8.5%	6.2%	8.2%		7.7%
U.S. dollars		2.0%	1.6%		1.8%
Argentine pesos		20.7%			20.7%
Venezuelan bolívares fuertes		18.1%			18.1%
Colombian pesos		4.9%			4.9%
Total	8.5%	7.1%	6.6%		7.4%

(1) Includes the Ps. 5,037 million current portion of long-term debt.

(2) Includes the effect of cross currency and interest rate swaps.

Restrictions Imposed by Debt Instruments

Generally, the covenants contained in the credit agreements and other instruments governing indebtedness entered into by us or our sub-holding companies include limitations on the incurrence of any additional debt based on debt service coverage ratios or leverage tests. These credit agreements also generally include restrictive covenants applicable to us, our sub-holding companies and their subsidiaries. There are no cross-guarantees between sub-holding companies. As of December 31, 2009, FEMSA's obligation of Ps. 2,800 million under a bank loan is guaranteed by FEMSA Cerveza. Additionally, FEMSA's obligation of Ps. 3,112 million is guaranteed by FEMSA Comercio. In addition, FEMSA guaranteed a FEMSA Cerveza obligation of Ps. 3,473 million. Certain of our financing instruments mentioned above are subject to either acceleration or repurchase at the lender's or holder's option if, in the case of FEMSA, the persons exercising control over FEMSA no longer exercise such control and, in the case of FEMSA Cerveza, FEMSA ceases to control FEMSA Cerveza.

Table of Contents

We are in compliance with all of our restrictive covenants as of December 31, 2009. A significant and prolonged deterioration in our consolidated results of operations could cause us to cease to be in compliance under certain indebtedness in the future. We can provide no assurances that we will be able to incur indebtedness or to refinance existing indebtedness on similar terms in the future.

Summary of Debt

The following is a summary of our indebtedness by sub-holding company and for FEMSA as of December 31, 2009:

Coca-Cola FEMSA. Coca-Cola FEMSA's total indebtedness was Ps. 15,923 million as of December 31, 2009, as compared to Ps. 18,543 million as of December 31, 2008. Short-term debt (including the current portion of long-term debt) and long-term debt were Ps. 5,427 million and Ps. 10,496 million, respectively, as of December 31, 2009, as compared to Ps. 6,095 million and Ps. 12,448 million, respectively, as of December 31, 2008. As of December 31, 2009, cash, cash equivalents and marketable securities comprised mainly of U.S. dollars, Mexican pesos, Brazilian reais, Venezuelan bolívares, Colombian pesos, and Argentine pesos, representing 45.8%, 27.7%, 19.0%, 3.7%, 2.5% and 0.7%, respectively. As of December 31, 2009, cash, cash equivalents and marketable securities were Ps. 9,740 million, as compared to cash and cash equivalents of Ps. 6,192 million as of December 31, 2008. Approximately Ps. 215 million of cash is considered restricted cash because it has been deposited to settle accounts payable in Venezuela and in Brazil. As of December 31, 2009, Coca-Cola FEMSA had a working capital deficit (defined as the excess of current liabilities over current assets) of Ps. 191 million, reflecting the decrease in cash and cash equivalents, accounts receivable and other assets.

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

Coca-Cola FEMSA's average cost of debt, after giving effect to cross currency and interest rate swaps, was 2.6% in U.S. dollars, 7.2% in Mexican pesos, 12.5% in Colombian pesos, 18.9% in Venezuelan bolívares and 21.6% in Argentine pesos as of December 31, 2009, compared to 5.5% in U.S. dollars, 9.0% in Mexican pesos, 15.2% in Colombian pesos, 22.2% in Venezuelan bolívares fuertes and 19.6% in Argentine pesos as of December 31, 2008.

FEMSA Cerveza. As of December 31, 2009, FEMSA Cerveza's total outstanding debt was Ps. 13,864 million, which included Ps. 314 million of outstanding short-term trade and working capital loans. As of December 31, 2008, FEMSA Cerveza had Ps. 13,550 million of outstanding long-term debt consisting of bilateral bank loans and equipment financing loans. Cash and cash equivalents comprised of Mexican pesos, Brazilian reais and U.S. dollars, representing 57%, 40% and 3%, respectively. As of December 31, 2009, cash and cash equivalents were Ps. 1,229 million as compared to Ps. 936 million as of December 31, 2008. FEMSA Cerveza's average cost of debt, after giving effect to interest rate swaps, as of December 31, 2009, was 8.21% in Mexican pesos, and 1.63% in U.S. dollars. On April 30, 2010, Heineken assumed the total outstanding debt of FEMSA Cerveza. See Item 5. Operating and Financial Review and Prospects Recent Developments.

FEMSA Comercio. As of December 31, 2009, FEMSA Comercio does not have outstanding debt.

Table of Contents

FEMSA and other business. As of December 31, 2009, FEMSA and the companies comprising our other business had total outstanding debt of Ps. 13,876 million, which includes Ps. 3,112 million of outstanding short-term debt (including the current portion of long-term debt). As of December 31, 2009, outstanding long-term debt was Ps. 10,764, which consisted of Ps. 1,500 million of *certificados bursátiles*, which mature in May 2011, Ps. 3,500 million of *certificados bursátiles*, which mature in April 2013, Ps. 2,964 million of *unidades de inversión* (inflation indexed units or UDI) which mature in December 2017 and Ps. 2,800 million which mature in April 2011. Additionally, Ps. 12,362 million of this outstanding debt was assigned to FEMSA Cerveza through intercompany documents, dated as of the closing of the Heineken transaction on April 30, 2010. Heineken paid the total amount of this debt. FEMSA's average cost of debt, after giving effect to interest rate swaps, as of December 31, 2009, was 8.49% in Mexican pesos.

Contingencies

We have various loss contingencies, for which reserves have been recorded in those cases where we believe an unfavorable resolution is probable. See Item 8. Financial Information Legal Proceedings. Most of these loss contingencies were recorded as reserves as a result of Panamco and Kaiser acquisitions. Any amounts required to be paid in connection with these loss contingencies would be required to be paid from available cash.

In 2009, the Brazilian government offered an amnesty, which grants a discount for fines and surcharges regarding indirect tax contingencies and allows the application of income tax losses to the remaining balance. In November 2009, our Brazilian operations announced to the Brazilian government the adoption of this amnesty. As a result, the Company cancelled indirect tax contingencies of Ps. 1,008 and applied income tax losses of Ps. 6,886. After amnesty adoption, as of December 31, 2009, Brazilian indirect tax contingencies and income tax losses carryforward amounted to Ps. 941, and Ps. 6,617, respectively. Additionally, since the acquisition of Kaiser, the Company identified some loss contingencies as more likely than not to occur. MolsonCoors, the previous parent of Kaiser agreed to indemnify for any loss related to those contingencies recognized as part of Kaiser's acquisition in 2006; such indemnity is limited to 82.95%, which was the percentage of Kaiser that the Company acquired from MolsonCoors. Consequently, the Company maintains an account receivable with MolsonCoors of Ps. 1,487 regarding the usage of tax losses to cancel those contingencies, which are recorded as part of accounts receivable and other assets. See Item 18. Financial statements Note 23 Taxes.

The following table presents the nature and amount of loss contingencies recorded as of December 31, 2009:

	Loss Contingencies As of December 31, 2009 (in millions of Mexican pesos)
Indirect taxes	Ps. 1,164
Labor	1,672
Legal	216
Total	Ps. 3,052

As is customary in Brazil, we have been asked by the tax authorities to collateralize tax contingencies currently in litigation in respect of Ps. 3,251 by pledging fixed assets and entering into available lines of credit to cover such contingencies.

We have other contingencies for which we have not recorded a reserve. These contingencies or our assessment of them may change in the future, and we may record reserves or be required to pay amounts in respect of these contingencies. As of December 31, 2009, the aggregate amount of contingencies for which we have not recorded a reserve was Ps. 11,922 million. These contingencies have been classified as less than probable by our legal counsel.

Table of Contents

Capital Expenditures

For the past five years, we have had significant capital expenditure programs, which for the most part were financed with cash from operations. Capital expenditures reached Ps. 13,178 million in 2009 compared to Ps. 14,234 million in 2008, a decrease of 7.4%. This was primarily due to a reduction of investments in the beverage business units related to the economic downturn. The principal components of our capital expenditures have been for equipment, market-related investments and production capacity and distribution network expansion at both Coca-Cola FEMSA and FEMSA Cerveza. See Item 4. Information on the Company Capital Expenditures and Divestitures.

Expected Capital Expenditures for 2010

Our capital expenditure budget for 2010 is expected to be approximately US\$ 772 million. The following discussion is based on each of our sub-holding companies' internal 2010 budgets. The capital expenditure plan for 2010 is subject to change based on market and other conditions and the subsidiaries' results of operations and financial resources.

Coca-Cola FEMSA's capital expenditures in 2010 are expected to be approximately up to US\$ 500 million. Coca-Cola FEMSA's capital expenditures in 2010 are primarily intended for:

investment in manufacturing lines;

returnable bottles and cases;

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

improvements throughout distribution network

IT investments.

Coca-Cola FEMSA estimates that of its projected capital expenditures for 2010, approximately 45% will be allocated in respect of its Mexican territories and the remaining will be for its non-Mexican territories. Coca-Cola FEMSA believes that internally generated funds will be sufficient to meet its budget capital expenditures for 2010. Coca-Cola FEMSA's capital expenditure plan for 2010 may change based on market and other conditions and based on its results of operations and financial results.

FEMSA Comercio's capital expenditure budget in 2010 is expected to total approximately US\$ 238 million, and will be allocated to the opening of new OXXO stores and to a lesser extent to the refurbishing of existing OXXO stores and the investment in two new distribution centers. In addition, investments are planned in FEMSA Comercio's information technology, ERP software updates and transportation equipment.

Hedging Activities

Our business activities require the holding or issuing of derivative instruments to hedge our exposure to market risks related to changes in interest rates, foreign currency exchange rates, equity risk and commodity price risk. See Item 11. Quantitative and Qualitative Disclosures about Market Risk.

The following table provides a summary of the fair value of derivative financial instruments as of December 31, 2009. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models we believe are supported by sufficient, reliable and verifiable market data, recognized in the financial sector.

Table of Contents

	Fair Value At December 31, 2009				Fair Value Asset (Liability)
	Maturity less than 1 year	Maturity 1 - 3 years	Maturity 3 - 5 years	Maturity in excess of 5 years	
	(in millions of Mexican pesos)				
Prices quoted by external sources	(791)	(526)	342	468	(507)

Plan for the Disposal of Certain Fixed Assets

We have identified certain fixed assets consisting of land, buildings and equipment for disposal, and we have an approved program for disposal of these fixed assets. These assets are not in use and have been valued at their estimated net realizable value without exceeding their restated acquisition cost. These assets are allocated as follows:

	December 31,	
	2009	2008
	(in millions of Mexican pesos)	
Coca-Cola FEMSA	Ps. 288	Ps. 394
FEMSA Cerveza	208	291
FEMSA and other	42	45
Total	Ps. 538	Ps. 730

In inflationary economic environments, fixed assets recorded at their estimated realizable value are considered monetary assets on which a loss on monetary position is computed and recorded in results of operation.

U.S. GAAP Reconciliation

The principal differences between Mexican Financial Reporting Standards and U.S. GAAP that affect our net income and majority stockholders equity relate to the accounting treatment of the following items:

consolidation of our subsidiary Coca-Cola FEMSA, which is a consolidated subsidiary for purposes of Mexican Financial Reporting Standards but presented under the equity method for U.S. GAAP purposes;

FEMSA's noncontrolling interest acquisition and sales;

deferred income taxes and deferred employee profit sharing;

restatement of imported machinery and equipment up to 2007;

capitalization of comprehensive financing result;

labor liabilities, and

start-up expenses.

For a more detailed description of the differences between Mexican Financial Reporting Standards and U.S. GAAP as they relate to us, as well as U.S. GAAP consolidated balance sheets, statements of income and comprehensive income, and cash flows for the same periods presented for

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Mexican Financial Reporting Standards purposes and, for the consolidated statement of changes in stockholders' equity for the years ended December 31, 2009 and 2008 and reconciliation of net income and stockholders' equity under Mexican Financial Reporting Standards to net income and stockholders' equity under U.S. GAAP, see notes 26 and 27 to our audited consolidated financial statements.

Table of Contents

Pursuant to Mexican Financial Reporting Standards through 2007, our audited consolidated financial statements recognize certain effects of inflation in accordance with Bulletin B-10. These effects were not reversed in our U.S. GAAP financial information. Beginning in 2008, we discontinued inflationary accounting in accordance with NIF B-10 in non-inflationary economic environments.

Under U.S. GAAP, we had net income attributable to controlling interest of Ps. 9,902 million and Ps. 6,852 million in 2009 and 2008, respectively. Under Mexican Financial Reporting Standards, we had net controlling interest income of Ps. 9,908 million and Ps. 6,708 million in 2009 and 2008, respectively. In 2009, net income attributable to controlling interest under U.S. GAAP was slightly lower than net controlling income under Mexican Financial Reporting Standards, mainly due to greater similarity among both accounting standards.

Controlling interest equity under U.S. GAAP as of December 31, 2009 and 2008 was Ps. 98,168 million and Ps. 85,537 million, respectively. Under Mexican Financial Reporting Standards, controlling interest equity as of December 31, 2009 and 2008 was Ps. 81,637 million and Ps. 68,821 million, respectively. The principal reasons for the difference between controlling interest stockholders' equity under U.S. GAAP and controlling interest equity under Mexican Financial Reporting Standards were the effect of the goodwill generated by the noncontrolling interest acquisitions, deferred income tax, labor liabilities, deferred employee profit sharing and start-up expenses.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors

Management of our business is vested in the board of directors and in our chief executive officer. Our bylaws provide that the board of directors will consist of no more than 21 directors and their corresponding alternate directors elected by our shareholders at the AGM. Directors are elected for a term of one year. Alternate directors are authorized to serve on the board of directors in place of their specific directors who are unable to attend meetings and may participate in the activities of the board of directors. Nineteen members form our board of directors. Our bylaws provide that the holders of the Series B Shares elect at least eleven directors and that the holders of the Series D Shares elect five directors. See Item 10. Additional Information Bylaws.

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

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

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

Series B Directors

José Antonio Fernández Carbajal <i>Director and Chairman of the Board</i>	Born:	February 1954
	First elected	2001
	(Chairman):	
	First elected	1984
	(Director):	
	Term expires:	2011
Principal occupation:	Chief Executive Officer of FEMSA	

Table of Contents

Other directorships: Chairman of the board of Coca-Cola FEMSA, Vice-Chairman of the supervisory board of Heineken and member of the board of Heineken Holding, Vice-Chairman of the board of Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. (ITESM) and member of the boards of BBVA Bancomer, Bancomer, Industrias Peñoles, S.A.B. de C.V. (Peñoles), Grupo Industrial Bimbo, S.A.B. de C.V. (Bimbo), Grupo Televisa S.A.B. (Televisa), Controladora Vuela Compañía de Aviación S.A. de C.V. (Volaris), Xignus, S.A. de C.V., and Cemex, S.A.B. de C.V. (Cemex)

Business experience: Joined FEMSA's strategic planning department in 1987, held managerial positions at FEMSA Cerveza's commercial division and OXXO and appointed our Chief Executive Officer in 1995

Education: Holds a degree in industrial engineering and an MBA from ITESM

Alternate director: Federico Reyes García

Eva Garza Lagüera Gonda⁽¹⁾
Director

Born: April 1958

First elected: 1999

Term expires: 2011

Principal occupation: Private investor

Other directorships: Member of the boards of directors of Coca-Cola FEMSA, ITESM and Premio Eugenio Garza Sada

Education: Holds a degree in Communication Sciences from ITESM

Alternate director: Paulina Garza Lagüera Gonda⁽²⁾

Bárbara Garza Lagüera Gonda⁽²⁾
Director

Born: December 1959

First elected: 2002

Term expires: 2011

Principal occupation: Private investor

Business experience: Former President / Chief Executive Officer of Alternativas Pacíficas, A.C., (a non-profit organization)

Education: Holds a business administration degree from ITESM

Alternate director: Enrique F. Senior Hernández

José Fernando Calderón Rojas
Director

Born: July 1954

First elected: 2005

Term expires: 2011

Principal occupation: Chairman of the board of directors and Chief Executive Officer of Franca Servicios, S.A. de C.V., Servicios Administrativos de Monterrey, S.A. de C.V., Regio Franca, S.A. de C.V., and Franca Industrias, S.A. de C.V.

Other directorships: Member of the boards of Bancomer and Alfa, S.A.B. de C.V. (Alfa)

Education: Holds a law degree from the Universidad Autónoma de Nuevo León (UANL) and completed specialization studies in tax at UANL

Alternate director: Francisco José Calderón Rojas⁽³⁾

Consuelo Garza de Garza
Director

Born: October 1930

First elected: 1995

Term expires: 2011

Business experience: Founder and former President of Asociación Nacional Pro-Superación Personal, (a non-profit organization)

Alternate