

Risk Factors

Risks Related to Our Company

Coca-Cola FEMSA

Coca-Cola FEMSA's business depends on its relationship with The Coca-Cola Company.

Approximately 93.2% of Coca-Cola FEMSA's sales volumes in 2003 were derived from sales of *Coca-Cola* trademark beverages. Coca-Cola FEMSA produces, markets and distributes *Coca-Cola* trademark beverages through standard bottler agreements that cover all of Coca-Cola FEMSA's present territories. Through its rights under the bottler agreements and as a large shareholder, The Coca-Cola Company has the ability to exercise substantial influence over the conduct of Coca-Cola FEMSA's business. See "Item 10. Additional Information—Material Contracts—Coca-Cola FEMSA—Bottler Agreements."

Under Coca-Cola FEMSA's bottler agreements, The Coca-Cola Company may unilaterally set the price for its concentrate. Furthermore, in conjunction with The Coca-Cola Company, Coca-Cola FEMSA prepares a three-year general business plan that is submitted to Coca-Cola FEMSA's board of directors for approval. The Coca-Cola Company may require that Coca-Cola FEMSA demonstrates its financial ability to meet Coca-Cola FEMSA's plans and may terminate Coca-Cola FEMSA's rights to produce, market and distribute soft drinks in territories with respect to which such approval is withheld. The Coca-Cola Company also makes significant contributions to Coca-Cola FEMSA's marketing budget although they are not required to contribute a particular amount. In addition, Coca-Cola FEMSA is prohibited from bottling any soft drink product or distributing other beverages without The Coca-Cola Company's authority or consent. The Coca-Cola Company has the exclusive right to import and export *Coca-Cola* trademark beverages to and from Coca-Cola FEMSA's territories. Coca-Cola FEMSA may not transfer control of the bottler rights of any of its territories without the consent of The Coca-Cola Company.

Coca-Cola FEMSA depends on The Coca-Cola Company to renew its bottler agreements. Coca-Cola FEMSA's bottler agreements for Mexico expire in 2005 and 2013, renewable in each case for ten-year terms. Its bottler agreements for Colombia, Brazil and Argentina expire in 2004, renewable in each case for five-year terms (except for Argentina, which is renewable for ten-year terms). Coca-Cola FEMSA's remaining territories are governed by bottler agreements that expire after 2005 that have similar renewal periods. There can be no assurances that The Coca-Cola Company will decide to renew any of these agreements. In addition, these agreements generally may be terminated in the event that Coca-Cola FEMSA fails to comply with their terms. Non-renewal or termination would prevent Coca-Cola FEMSA from selling *Coca-Cola* trademark beverages in the affected territory and would have an adverse effect on Coca-Cola FEMSA's business, financial condition, prospects, and results of operations.

The Coca-Cola Company indirectly owns 39.6% of Coca-Cola FEMSA's outstanding capital stock, representing 46.4% of the voting rights in Coca-Cola FEMSA. The Coca-Cola Company is entitled to appoint four of Coca-Cola FEMSA's 18 directors and certain of Coca-Cola FEMSA's executive officers and, except under limited circumstances, has the power to veto significant decisions of Coca-Cola FEMSA's board of directors. Thus, the Coca-Cola Company has the power to affect the outcome of all actions requiring approval by Coca-Cola FEMSA's board of directors and, except in certain limited situations, has the power to affect the outcome of all actions requiring approval of Coca-Cola FEMSA's shareholders. See "Item 10. Additional Information—Material Contracts—Coca-Cola FEMSA—Shareholders Agreement." The interests of the Coca-Cola Company may be different from the interests of Coca-Cola FEMSA's remaining shareholders, and they may cause Coca-Cola FEMSA to take actions that are not in the interest of Coca-Cola FEMSA's remaining shareholders.

Coca-Cola FEMSA has significant transactions with affiliates, particularly The Coca-Cola Company, that create potential conflicts of interest.

Coca-Cola FEMSA engages in transactions with subsidiaries of The Coca-Cola Company. Coca-Cola FEMSA has entered into cooperative marketing arrangements with The Coca-Cola Company. Coca-Cola FEMSA is a party to a number of bottler agreements with The Coca-Cola Company and has also entered into a credit agreement with The Coca-Cola Company pursuant to which Coca-Cola FEMSA may borrow up to US\$250 million for working capital and other general corporate purposes. See "Item 7. Major Shareholders and Related Party Transactions—Related Party Transactions" and "Item 10. Additional Information—Material Contracts—Coca-Cola FEMSA—Bottler Agreements." Transactions with affiliates may create the potential for conflicts of interest, which could result in terms less favorable to Coca-Cola FEMSA than could be obtained from an unaffiliated third party.

Coca-Cola FEMSA has recently increased its leverage as a result of the Panamco acquisition.

In connection with the acquisition of Panamco, Coca-Cola FEMSA incurred approximately Ps. 26,352 million of debt (including existing debt of Panamco). Coca-Cola FEMSA's total indebtedness as of December 31, 2003 was Ps. 29,004 million. Its debt level is now significantly higher than it has been historically. The increase in debt may reduce the amount of cash otherwise available to Coca-Cola FEMSA to invest in its business or meet its obligations and may prevent it in the future from pursuing acquisitions and other opportunities that may present themselves to Coca-Cola FEMSA or from obtaining additional financing or completing refinancings on terms favorable to Coca-Cola FEMSA.

Coca-Cola FEMSA may not achieve expected operating efficiencies in the newly acquired territories.

Through the acquisition of Panamco, Coca-Cola FEMSA acquired new territories in Mexico as well as in the following countries in which it has not historically conducted operations: Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela and Brazil. Since the acquisition, Coca-Cola FEMSA has undertaken a plan in the newly acquired territories to integrate Coca-Cola FEMSA's operations, to improve the utilization of assets across Coca-Cola FEMSA's territories and to implement the commercial strategies that Coca-Cola FEMSA has historically applied in its territories in Mexico and Argentina. Conditions in these new territories are different from the conditions under which Coca-Cola FEMSA has historically operated with less favorable consumption patterns than those experienced in Mexico and different and more challenging political and economic climates. In addition, distribution and marketing practices in Coca-Cola FEMSA's new territories differ from Coca-Cola FEMSA's historical practices. Several of these territories have a lower level of pre-sale as a percentage of total distribution than Coca-Cola FEMSA is accustomed to having, and the product and presentation mix varies from territory to territory with customer preferences. There can be no assurance that Coca-Cola FEMSA's initiatives will reduce operating costs or maintain or improve sales in the near term or at all, which may adversely affect Coca-Cola FEMSA's sales growth and operating margins.

Competition could affect Coca-Cola FEMSA's business.

The beverage industry throughout Latin America is highly competitive. Coca-Cola FEMSA faces competition from other bottlers of soft drinks such as PepsiCo, Inc., which we refer to as PepsiCo, and from producers of low cost beverages or "B" brands. Coca-Cola FEMSA also competes against beverages other than soft drinks such as water, fruit juice 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 sale promotions, customer service and non-price retail incentives. 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 results of operations.

Coca-Cola FEMSA's principal competitor in Mexico is The Pepsi Bottling Group, which we refer to as PBG. PBG is the largest Pepsi bottler worldwide and competes with Coca-Cola trademark beverages. Coca-Cola FEMSA has also experienced stronger competition in Mexico from lower priced soft drinks in multi-serving presentations. In Argentina and Brazil, Coca-Cola FEMSA competes against Companhia de Bebidas das Americas, commonly referred to as AmBev, the largest brewer in Latin America, which sells Pepsi products, in addition to a portfolio that includes local brands with flavors such as guaraná and proprietary beers. In each of Coca-Cola FEMSA's territories it competes against bottlers of Pepsi with various other bottlers and distributors of national and regional soft drinks as well as complementary beverages such as water, juice and sports drinks. In certain territories, Coca-Cola FEMSA also competes against soft drink flavors that have a strong local presence, such as *La Colombiana* in Colombia.

A water shortage or a failure to maintain existing concessions could affect Coca-Cola FEMSA's business.

Water is an essential component of soft drinks. Coca-Cola FEMSA obtains water from various sources in its territories, including springs, wells, rivers and municipal water companies. In Mexico, Coca-Cola FEMSA purchases water from municipal water companies and pumps water from its own wells pursuant to concessions granted by the Mexican government. Coca-Cola FEMSA obtains the vast majority of the water used in its soft drink production in Mexico pursuant to these concessions, which the Mexican government granted based on studies of the existing and projected groundwater supply. Coca-Cola FEMSA's existing water concessions in Mexico may be terminated by governmental authorities under certain circumstances and their renewal depends on receiving necessary authorizations from municipal water authorities. See "Item 4. Information on the Company—Regulatory Matters—Water Supply Law." In 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 shortage or changes in governmental regulations.

Coca-Cola FEMSA cannot assure that water will be available in sufficient quantities to meet its future production needs, or that its concessions and permits will not be terminated or prove sufficient to meet its water supply needs.

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

Coca-Cola FEMSA's most significant raw materials are concentrate, which it acquires from companies designated by The Coca-Cola Company, sweeteners and packaging materials. Prices for concentrate are determined by The Coca-Cola Company pursuant to its bottler agreements as a percentage of the weighted average retail price, net of applicable taxes. The prices for 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 use only suppliers approved by The Coca-Cola Company, which may limit the number of suppliers available to Coca-Cola FEMSA. Coca-Cola FEMSA's sales prices are denominated in the local currency in which it operates, while the prices of certain materials used in the bottling of its products, mainly aluminum cans and plastic bottles, are paid in or determined with reference to the U.S. dollar and therefore may increase if the U.S. dollar appreciates against the currency of any country in which it operates, particularly against the Mexican peso. See "Item 4. Information on the Company—Coca-Cola FEMSA—Raw Materials."

After concentrate, packaging, and sweeteners constitute the largest portion of Coca-Cola FEMSA's raw material costs. Sugar prices in all of the countries in which Coca-Cola FEMSA operates other than Brazil, are subject to local regulations and other barriers to market entry that cause Coca-Cola FEMSA to pay in excess of international market prices for sugar. In Mexico, sugar prices increased approximately 8% in 2003, and Coca-Cola FEMSA's ability to substitute other sweeteners has been limited by the imposition of a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners. In Venezuela, there was a shortage of sugar during the second half of 2003 due to the inability of the main sugar importers to access foreign currencies as a result of the exchange controls implemented at the beginning of 2003.

Coca-Cola FEMSA cannot assure that its raw material prices will not increase in the future. Increases in the prices of raw materials will increase Coca-Cola FEMSA's cost of sales and adversely affect its results of operations.

Taxes on soft drinks could affect Coca-Cola FEMSA's business.

Coca-Cola FEMSA's products are subject to excise and value-added taxes in many of the countries in which it operates. The imposition of new taxes or increases in taxes on Coca-Cola FEMSA's products may have a material adverse effect on its business, prospects, financial conditions and results of operations. Mexico recently implemented a 20% excise tax on carbonated soft drinks produced with non-sugar sweeteners. Certain countries in Central America, Argentina and Brazil have also imposed taxes on Coca-Cola FEMSA's products. See "Item 4. Information on the Company—Coca-Cola FEMSA—Taxation of Soft Drinks." Coca-Cola FEMSA can give no assurance that any governmental authority in any country where it operates will not impose or increase any such taxes in the future.

Regulatory developments may have an affect on 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, taxes and antitrust. The adoption of new laws or regulations in the countries in which Coca-Cola FEMSA operates may increase its operating costs or impose restrictions on its operations. In particular, environmental standards became more stringent recently in several of the countries in which Coca-Cola FEMSA operates, and Coca-Cola FEMSA is in the process of complying with these new standards.

Voluntary price restraints or statutory price controls have been imposed historically in several of the countries in which Coca-Cola FEMSA operates. The imposition of these restrictions may have an adverse effect on its results of operations and financial position. Although Mexican bottlers have been free to set prices for carbonated soft drinks without governmental intervention since January 1996, such prices were once subject to statutory price controls and, later, to voluntary price restraints, which effectively limited Coca-Cola FEMSA's ability to increase prices in the Mexican market without governmental consent. See "Item 4. Information on the Company—Regulatory Matters—Price Controls on Soft Drinks." Coca-Cola FEMSA can give no assurance that governmental authorities in any country where Coca-Cola FEMSA operates will not impose voluntary price restraints or statutory price controls.

FEMSA Cerveza

Unfavorable economic conditions in Mexico and the United States may affect FEMSA Cerveza's business.

Demand for the products of FEMSA Cerveza, S.A. de C.V., which we refer to as FEMSA Cerveza, our 70%-owned subsidiary engaged in the production, distribution and marketing of beer, may be affected by economic conditions in Mexico and the United States. In particular, demand in our northern stronghold regions in Mexico, where there are a large number of border towns, may be more affected by the performance of the United States' economy. In addition, our exports to the United States may be affected by reduced demand from the United States or from a reduction in prices by our competitors. Any depreciation of the Mexican peso may negatively affect our results of operations because a significant portion of our costs and expenses are denominated in or determined by reference to the U.S. dollar.

Uncertainty in commodity prices of raw materials used in beer production may result in increased costs.

FEMSA Cerveza purchases a number of commodities for the production of its products (principally barley, malt and hops)

from Mexican producers and in the international market. The prices of such commodities can fluctuate and are determined by global supply and demand and other factors, including changes in exchange rates, over which FEMSA Cerveza has no control. There can be no assurance that FEMSA Cerveza will be able to recover increases in the cost of raw materials. See "Item 4. Information on the Company—FEMSA Cerveza—Raw Materials." An increase in raw materials costs would adversely affect our results of operations.

Labatt, through a joint venture with FEMSA Cerveza, has significant rights that may allow Labatt to influence the conduct of FEMSA Cerveza's business.

On December 1, 1994, FEMSA Cerveza and Labatt Brewing Company Limited, which we refer to as Labatt, entered into a joint venture pursuant to which Labatt currently holds 30% of the capital stock of FEMSA Cerveza. Both parties agreed to combine their United States beer businesses through their joint ownership of Labatt USA LLC and Latrobe Brewing Company LLC, which we collectively refer to as Labatt USA. FEMSA Cerveza's relationship with Labatt gives Labatt significant rights, which may allow Labatt to influence the conduct of FEMSA Cerveza's business. Under the bylaws of FEMSA Cerveza, Labatt may appoint four directors to FEMSA Cerveza's 15 member board of directors. As long as Labatt or its controlled affiliates or permitted transferees hold certain shares of FEMSA Cerveza representing at least 20% of the outstanding capital stock, Labatt has the right to approve the appointment of the senior operating vice presidents of FEMSA Cerveza and veto certain decisions of the board of directors.

In addition, affiliates of Labatt own 70% of Labatt USA, and Labatt USA is the exclusive importer of FEMSA Cerveza's brands into the United States. As such, FEMSA Cerveza's exports to the United States may depend on Labatt. See "Item 10. Additional Information—Material Contracts—FEMSA Cerveza."

On April 29, 2002, Wisdom Import Sales Co., which we refer to as Wisdom, a subsidiary of FEMSA Cerveza in the United States, filed a lawsuit against certain affiliates of Labatt to enjoin the integration of the beer brands of Beck's North America, which we refer to as Beck's, into the beer distribution portfolio of Labatt USA, and on May 23, 2002 a preliminary injunction was issued by a New York district court preventing the integration of Beck's into the Labatt USA portfolio. This ruling was upheld on appeal and on October 10, 2003, the district court entered a final judgment on consent, providing that the affiliates of Labatt are permanently prohibited from integrating the Beck's brands into the portfolio of Labatt USA without the required approval of Wisdom or the Wisdom directors on the board of the limited liability company that governs Labatt USA.

On March 3, 2004, Interbrew and the Brazilian brewer AmBev announced a transaction that would affect the ownership of the majority interest in the limited liability company that owns Labatt USA. Wisdom has commenced litigation in the United States District Court for the Southern District of New York alleging, among other things, that the transaction involves a transfer of membership or other ownership interests in the limited liability company that owns Labatt USA, and that such a transfer cannot occur without the approval of Wisdom or at least one of the Wisdom-appointed directors on the board of the limited liability company. See "Item 8. Financial Information--Legal Proceedings--FEMSA Cerveza." An ongoing dispute between FEMSA Cerveza and Labatt may have an adverse effect on our existing joint venture and our exports in the United States.

FEMSA Cerveza's sales in the Mexican market depend on its ability to compete with Grupo Modelo.

FEMSA Cerveza faces competition in the Mexican beer market from Grupo Modelo, S.A. de C.V., which we refer to as Grupo Modelo. FEMSA Cerveza's ability to compete successfully in the Mexican beer market will have a significant impact on its Mexican sales. See "Item 4. Information on the Company--FEMSA Cerveza--The Mexican Beer Market."

Competition from imports in the Mexican beer market is increasing.

Imports do not currently constitute a significant portion of the Mexican beer market. Under the North American Free Trade Agreement or NAFTA, the tariffs applicable to imported beers from the United States and Canada were eliminated in January 2001. During 2003 imports grew 10.6% versus 2002 and represented 1.8% of the Mexican beer market. FEMSA Cerveza believes that imports will continue to represent a small percentage of the Mexican beer market. Increased import competition, however, could lead to greater competition in general, and there can be no assurance that such a trend would not affect FEMSA Cerveza. See "Item 4. Information on the Company--FEMSA Cerveza--The Mexican Beer Market."

Regulatory developments in Mexico could affect FEMSA Cerveza's business.

FEMSA Cerveza's business is subject to a variety of different Mexican government regulations, both federal and local, and may be affected by changes in law, regulation or regulatory policy. Actions of Mexican federal and local authorities, in particular changes in governmental policy with respect to excise and value-added tax laws, cold beer regulation or the beer industry practice of "tied-customer arrangements," which are agreements with retailers to sell and promote its products, may have a material adverse impact on FEMSA Cerveza's business, financial conditions and results of operations.

Federal regulation of beer consumption in Mexico is primarily effected through a 25% excise tax and a 15% value-added tax. We do not anticipate an increase in these taxes, but federal regulation relating to excise taxes may change in the future, resulting in an increase or decrease in the tax. Local regulations are primarily effected through the issuance of licenses, which authorize retailers to sell alcoholic beverages. Other regulations affecting beer consumption in Mexico vary according to local jurisdictions and include limitations on the hours during which restaurants, bars and other retail outlets are allowed to sell beer. See "Item 4. Information on the Company--FEMSA Cerveza--The Mexican Beer Market."

A water supply shortage could affect FEMSA Cerveza's business.

FEMSA Cerveza purchases water from government entities and obtains pump water from its own wells pursuant to concessions granted by the Mexican government.

FEMSA Cerveza believes that its water concessions will satisfy its current and future water requirements. There can be no assurance, however, that isolated periods of adverse weather will not affect FEMSA Cerveza's supply of water to meet its future production needs in any given period, or that its concessions will not be terminated or will not be renewed by the Mexican government or prove insufficient to meet its water demand.

FEMSA Comercio

Competition from other retailers in Mexico could affect our company's business.

The Mexican retail sector is highly competitive. FEMSA participates in the retail sector primarily through FEMSA Comercio, S.A. de C.V., which we refer to as FEMSA Comercio. FEMSA Comercio's Oxxo convenience stores face competition on a regional basis from 7-Eleven, Super Extra, AM/PM and Circle K stores. In particular, the Super Extra chain is owned and managed by Grupo Modelo, our main competitor in the Mexican beer market, and in 2003 the Super Extra chain launched an aggressive expansion in the number of their stores. Oxxo convenience stores also face competition from numerous small chains of retailers in some regions across Mexico. There can be no assurance that FEMSA Comercio will not be affected by an increase in competition.

Oxxo convenience stores are sensitive to economic conditions in Mexico.

Due to the nature of the convenience store market, convenience stores often sell certain products at a premium. The convenience store market is thus highly sensitive to economic conditions as 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 our 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 operating revenue.

FEMSA Empaques

FEMSA Empaques' beverage can operation is sensitive to economic conditions and competition from alternative beverage presentations.

The aluminum can operations of Fábricas Monterrey, S.A. de C.V., which we refer to as Famosa, a subsidiary of FEMSA Empaques, S.A. de C.V., which we refer to as FEMSA Empaques, are sensitive to economic conditions because beverage can presentations are more expensive to the consumer than alternative presentations. FEMSA Empaques' beverage can business exclusively serves the beverage industry and therefore is vulnerable to shifts in demand for beverage products. Furthermore, beverage can presentations also compete with alternative beverage presentations such as glass and polyethylene terephthalate or PET presentations. Demand for canned beverages has decreased in recent years due to a shift toward PET presentations in the soft drink industry. See "Item 4. Information on the Company—FEMSA Empaques—Principal Products—Beverage Cans." A decrease in demand may adversely affect FEMSA Empaques' results of operations.

The Mexican beverage can industry may have excess capacity, which may result in decreases in prices.

Certain significant competitors in the beverage can industry operate at average levels of capacity utilization below 60%. We cannot guarantee that some of these businesses will not practice aggressive pricing strategies in order to increase their sales volume. See "Item 4. Information on the Company—FEMSA Empaques—Principal Products—Beverage Cans."

FEMSA Empaques' sales of glass bottles may be affected by competition and from alternative beverage presentations.

FEMSA Empaques' principal domestic competitor in the sale of glass bottles is Vitro, S.A. de C.V., which we refer to as Vitro. There can be no assurance that FEMSA Empaques will not be affected by price competition from Vitro or other producers of glass bottles or alternative containers. See "Item 4. Information on the Company—FEMSA Empaques—Principal Products—Glass Bottles."

Moreover, like the beverage can business, FEMSA Empaques' glass bottle business exclusively serves the beverage industry and, thus, is vulnerable to shifts in preferences for those products and presentations. Demand for glass bottle presentations has declined in recent years due to a shift towards non-returnable PET presentations for soft drinks. See "Item 4. Information on the Company—FEMSA Empaques—Principal Products—Glass Bottles." There can be no assurance that there will not be a further shift in demand towards such alternative presentations, which would have an effect on our glass bottle operations.

FEMSA Empaques' operating expenses are affected by changes in commodity prices and exchange rate fluctuations.

A significant portion of FEMSA Empaques' raw materials consist of commodities, the prices of which are subject to volatility in accordance with international market conditions. In addition, FEMSA Empaques' operating expenses are denominated in Mexican pesos while its revenues are linked to the U.S. dollar. As a result, the operating margins of FEMSA Empaques may be adversely affected as a result of increases in commodity prices or an appreciation in the Mexican peso against the U.S. dollar.

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.

A voting trust, comprised mainly of five families, owns 36.01% of our capital stock and 69.67% 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 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 changes in our corporate form, a dissolution or liquidation and the cancellation of the registration of the Series D-B and D-L Shares. 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 in the form of ADSs under the trading symbol FMX. There can be no assurance that holders of our shares through 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 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 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, we must generally 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 be legally permitted to allow holders of our shares in the form of ADSs in the United States to exercise any preemptive rights in any future capital increases unless (i) we file a registration statement with the SEC with respect to that future issuance of shares or (ii) the offering qualifies for an exemption from the registration requirements of the U.S. Securities Act of 1933. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, as well as the benefits of preemptive rights to holders of our shares in the form of ADSs in the United States and any other factors that we consider important in determining whether to file a registration statement.

There can be no assurance that we will file a registration statement with the SEC to allow holders of our shares in the form of ADSs 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 through ADSs is not possible. As a result, the equity interest of holders of our shares through ADSs would be diluted

proportionately. See "Item 10. Additional Information—Preemptive Rights."

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

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

We are a Mexican corporation, and our Mexican operations are our single most important geographic division. In the past, Mexico has experienced both prolonged periods of weak economic conditions and dramatic deteriorations in economic conditions that have had a negative impact on our company. There can be no assurances that such conditions will not return or that such conditions will not have a material adverse effect on our financial condition and results of operations.

Our business may be significantly affected by the general condition of the Mexican economy, the rate of inflation, interest rates and exchange rates. Decreases in the growth rate of the Mexican economy, periods of negative growth and increases in inflation or interest rates 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 costs and expenses, 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, Mexican peso-denominated funding and have an adverse effect on our financial condition and results of operations.

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

A depreciation of the Mexican peso relative to the U.S. dollar would increase the cost to us of a portion of the raw materials, the price of which is tied to the U.S. dollar, and debt obligations denominated in U.S. dollars, and thereby may have a negative effect on our net results. A severe devaluation or depreciation of the Mexican peso may also 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 indebtedness. While the Mexican government does not currently restrict, and for many years 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. To the extent that there are currency fluctuations, they are likely to have an effect on our financial condition, results of operations and cash flows in future periods.

Political events in Mexico could affect our operations.

Mexican political events may also significantly affect our operations. In the Mexican national elections held on July 2, 2000, Vicente Fox of the National Action Party (*Partido Acción Nacional*) or PAN won the presidency. Although his victory ended more than 70 years of presidential rule by the Institutional Revolutionary Party (*Partido Revolucionario Institucional*) or PRI, neither the PRI nor the PAN succeeded in securing a majority in the Mexican congress. In elections in 2003, the PAN lost additional seats in the Mexican congress and state governorships. The resulting legislative gridlock has impeded the progress of reforms in Mexico, which may adversely affect economic conditions in Mexico or our results of operations. During 2004, there will be elections for governors in 10 out of 32 states and for local congresses in 14 states.

Developments in other Latin American countries in which we operate may affect our business.

In addition to Mexico, our subsidiary Coca-Cola FEMSA conducts operations in Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. These countries expose us to different or greater country risk than Mexico. For many of these countries, operating results in recent years have been adversely affected by deteriorating macroeconomic and political conditions. In Argentina and Venezuela, significant economic and political instability, including a contracting economy, a drastic currency devaluation, high unemployment, the introduction of exchange controls and social unrest have resulted in higher production costs and declining net sales for Coca-Cola FEMSA. In Colombia, Coca-Cola FEMSA has experienced problems with production and distribution as a result of political instability.

Coca-Cola FEMSA's future results may be significantly affected by the general economic and financial conditions in the countries where it operates, by the devaluation of the local currency, inflation and high interest rates, or by political developments or changes in law. Devaluation of the local currency against the U.S. dollar may increase the operating costs in that country, and a depreciation against the Mexican peso may negatively affect the results of that country as reported in our Mexican GAAP financial statements. In addition, some of these countries may impose exchange controls that could impact Coca-Cola FEMSA's ability to purchase raw materials in foreign currencies and the ability of the subsidiaries in these countries to remit dividends abroad or make payments other than in local currencies, as is currently the case in Venezuela under regulations imposed in January 2003. As a result of these potential risks, Coca-Cola FEMSA may experience lower demand, lower real pricing, or increases in costs, which may negatively impact its results of operations.

ITEM 4. INFORMATION ON THE COMPANY**Overview**

We are a Mexican company headquartered in Monterrey, Mexico. Our legal name is Fomento Económico Mexicano, S.A. de C.V., and in commercial contexts we frequently refer to ourselves as FEMSA. Our principal executive offices are located at General Anaya No. 601 Pte., Colonia Bella Vista, Monterrey, Nuevo León 64410, Mexico. Our telephone number at this location is (52-81) 8328-6000. Our website is www.femsa.com. We are organized as a *sociedad anónima de capital variable* under the laws of Mexico. Our company was incorporated on May 30, 1936 and has a duration of 99 years.

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

- Coca-Cola FEMSA, which engages in the production, distribution and marketing of soft drinks;
- FEMSA Cerveza, which engages in the production, distribution and marketing of beer;
- FEMSA Comercio, which operates convenience stores; and
- FEMSA Empaques, which engages in the production and distribution of beverage-related packaging materials.

Corporate Background

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

In 1891, the first year of production, Cuauhtémoc produced 2,000 hectoliters of beer. Cuauhtémoc continued to expand through additions to existing plant capacity and through acquisitions of other Mexican breweries, and has continued to increase its production capacity, reaching approximately 32.5 million hectoliters in 2003.

The strategic integration of the company dates back to 1936 when Famosa was established to supply crown caps to the brewery. The packaging operations were expanded in 1957 when we began to produce labels and flexible packaging for the company's beer operations. 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 Grupo Industrial Alfa, S.A. 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 drink and mineral water industries, the establishment of the first convenience stores under the trade name Oxxo and investments in the hotel, construction, auto parts, food and fishing industries, which 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.

Pursuant to the 1988 restructuring, these different assets were combined under a single corporate, which became Grupo Industrial Emprex, S.A. de C.V., which we refer to as Emprex. The debt restructuring included a capital increase, capitalization of debt and a divestiture of interests in non-core businesses. As a result of these transactions, FEMSA's interest in Emprex was diluted to 60%, only to increase subsequently to approximately 68% as a result of the exercise of certain option rights by FEMSA.

In August 1991, FEMSA repurchased approximately 30% of its shares from a dissident minority shareholder. 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. As a result, FEMSA's interest in Emprex declined to approximately 62%. In connection with these transactions, an 11% interest in Emprex was issued to a European portfolio investor. This reduced FEMSA's interest in Emprex to approximately 51%. In August 1996, the shares of BBVA Bancomer that were received by FEMSA in the exchange with Emprex's shareholders were distributed as a dividend to FEMSA's shareholders.

Upon the completion of these transactions, Emprex began a series of strategic transactions to strengthen the competitive positions of its 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 in 1994. Labatt 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 the B Units on the Mexican Stock Exchange. Prior to the completion of the exchange offer, FEMSA owned 51.04% of the shares of Emprex. Upon the completion of the exchange offer, FEMSA owned 98.70% of the outstanding shares of Emprex, which amount increased to 99.99% through a tender offer by FEMSA for the remaining Emprex shares.