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Financial Summary

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

<i>Amounts expressed in millions of Mexican pesos (Ps.) as of December 31. ⁽¹⁾</i>					
	2009	2008	2007	2006	2005
Income Statement					
Net sales	Ps. 196,103	Ps. 167,171	Ps. 147,069	Ps. 135,647	Ps. 118,799
Total revenues	197,033	168,022	147,556	136,120	119,462
Cost of sales	106,195	90,399	79,739	73,338	63,695
Gross profit	90,838	77,623	67,817	62,782	55,767
Operating expenses	63,826	54,939	48,081	44,145	38,166
Income from operations	27,012	22,684	19,736	18,637	17,601
Other expenses, net	3,506	2,374	1,297	1,650	1,108
Comprehensive financing result	4,516	6,825	1,553	2,519	2,800
Income taxes	3,908	4,207	4,950	4,608	4,620
Consolidated net income for the year	15,082	9,278	11,936	9,860	9,073
Net controlling interest income	9,908	6,708	8,511	7,127	5,951
Net noncontrolling interest income	5,174	2,570	3,425	2,733	3,122
Ratios to total revenues (%)					
Gross margin	46.1%	46.2%	46.0%	46.1%	46.7%
Operating margin	13.7%	13.5%	13.4%	13.7%	14.7%
Net income	7.7%	5.5%	8.1%	7.2%	7.6%
Other information					
Depreciation	5,596	4,967	4,359	4,333	3,990
Amortization and other non-cash charges to income from operations	4,482	4,031	3,709	3,787	3,543
EBITDA	37,090	31,682	27,804	26,757	25,134
Capital expenditures ⁽²⁾	13,178	14,234	11,257	9,422	7,508
Balance Sheet					
Assets					
Current assets	49,380	38,987	33,485	27,829	24,900
Property, plant and equipment, net ⁽³⁾	69,200	65,158	57,832	56,027	51,175
Investment in shares	2,344	1,965	1,863	824	852
Intangible assets	71,181	65,860	60,234	57,906	52,837
Other assets	18,986	15,375	12,381	11,930	10,059
Total assets	211,091	187,345	165,795	154,516	139,823

Financial Summary

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

<i>Amounts expressed in millions of Mexican pesos (Ps.) as of December 31. ⁽¹⁾</i>					
	2009	2008	2007	2006	2005
Liabilities					
Short-term debt	Ps. 8,853	Ps. 11,648	Ps. 9,364	Ps. 6,746	Ps. 5,479
Current liabilities	36,914	32,446	24,153	21,314	17,031
Long-term debt	34,810	32,210	30,665	35,673	32,129
Labor liabilities	3,354	2,886	3,718	3,269	2,676
Deferred income taxes liabilities	972	2,400	3,584	3,995	3,703
Other	10,359	8,860	4,658	5,311	4,407
Total liabilities	95,262	90,450	76,142	76,308	65,425
Stockholders' equity					
Controlling interest	115,829	96,895	89,653	78,208	74,398
Noncontrolling interest	81,637	68,821	64,578	56,654	52,400
	34,192	28,074	25,075	21,554	21,998
Financial ratios (%)					
Liquidity	1.08	0.89	1.00	0.99	1.11
Leverage	0.82	0.91	0.85	0.98	0.88
Capitalization	0.29	0.34	0.33	0.37	0.35
Data per share					
Book value ⁽⁴⁾	4.563	3.847	3.609	3.167	2.929
Net controlling interest income ⁽⁵⁾	0.554	0.375	0.476	0.398	0.333
Dividends paid ⁽⁶⁾					
Series "B" shares	0.081	0.081	0.074	0.049	0.037
Series "D" shares	0.101	0.101	0.093	0.061	0.046
Number of employees ⁽⁷⁾	127,179	122,981	105,020	97,770	90,731
Number of outstanding shares ⁽⁸⁾	17,891.13	17,891.13	17,891.13	17,891.13	17,891.13

(1) Amounts as of December 31, 2007, 2006 and 2005 are expressed in millions of pesos as of December 31, 2007.

(2) Includes investments in property, plant and equipment, as well as deferred charges and intangible assets.

(3) Includes bottles and cases.

(4) Controlling interest divided by the total number of shares outstanding at the end of each year.

(5) Net controlling interest income divided by the total number of shares outstanding at the end of each year.

(6) Expressed in nominal pesos of each year.

(7) 2009 and 2008 figures include third-party employees from FEMSA Cerveza.

(8) Total number of shares outstanding at the end of each year expressed in millions.

AUDITED FINANCIAL RESULTS FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2009 COMPARED TO THE TWELVE MONTHS ENDED DECEMBER 31, 2008.

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

All of the figures in this report were prepared in accordance with Mexican Financial Reporting Standards ("Mexican FRS" or "Normas de Información Financiera"). The 2009 and 2008 results are stated in nominal Mexican pesos ("Pesos" or "Ps."). Translations of Pesos into US dollars ("US\$") are included solely for the convenience of the reader and are determined using the noon buying rate for Pesos as published by the Federal Reserve Bank of New York on December 31, 2009, which was 13.0576 Pesos per US dollar.

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

FEMSA CONSOLIDATED

2009 amounts in average Mexican pesos (millions)

FEMSA and Its Subsidiaries

	Total Revenues	% Growth Versus '08	Income from Operations	% Growth Versus '08
FEMSA Consolidated	Ps. 197,033	17.3%	Ps. 27,012	19.1%
Coca-Cola FEMSA	102,767	23.9%	15,835	15.6%
FEMSA Cerveza	46,336	9.3%	5,894	9.3%
FEMSA Comercio	53,549	13.6%	4,457	44.8%

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 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.

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 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.

Comprehensive Financing Result

Comprehensive financing result decreased 33.8% in 2009 to Ps. 4,516 million, reflecting a significant improvement due to the low comparison base of 2008, driven by lower foreign exchange losses due to the depreciation of local currencies in our markets against the US dollar and a shift to gains in certain derivative instruments during the year.

Income 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—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 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 FEMSA Unit⁽¹⁾ was Ps. 2.77 (US\$2.12 per ADS).

Capital Expenditures

Capital expenditures reached Ps. 13,178 million in 2009, a decrease of 7.4% from 2008 levels, driven by the rationalization and reduction of capacity-related investments in FEMSA Cerveza, which offset higher manufacturing investments at Coca-Cola FEMSA and the accelerated expansion of store openings at FEMSA Comercio.

Consolidated Net Debt

As of December 31, 2009, FEMSA recorded a cash balance⁽²⁾ of Ps. 17,636 million (US\$ 1.351 billion), an increase of Ps. 8,526 million (US\$ 653.0 million) as compared to December 31, 2008, reflecting strong cash generation at all of our operations, particularly at Coca-Cola FEMSA. Short-term debt was Ps. 8,853 million (US\$ 678 million) and long-term debt was Ps. 34,810 million (US\$ 2.666 billion). Our net debt decreased Ps. 8,831 million (US\$ 676.3 million), for a net debt balance of Ps. 24,982 million (US\$ 1.913 billion).

FINANCIAL RESULTS BY BUSINESS SEGMENT

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 our operations contributed more than 75% of incremental revenue, the acquisition of REMIL in Brazil and Brisa in Colombia together contributed to less than 15% of this growth, while a positive exchange rate translation effect resulting from the depreciation of the Peso against our operations' local currencies represented the balance.

Consolidated 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.

Consolidated total sales volume reached 2,428.6 million unit cases in 2009, compared to 2,242.8 million unit cases in 2008, an increase of 8.3%. 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 our 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 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 The 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 incremental revenues across all of our territories; however, our gross margin decreased 0.6 percentage points to 46.5% in 2009.

(1) FEMSA Units consist of FEMSA BD Units and FEMSA B Units. Each FEMSA BD Unit is comprised of one Series B Share, two Series D-B Shares and two Series D-L Shares. Each FEMSA B Unit is comprised of five Series B Shares. The number of FEMSA Units outstanding as of December 31, 2009 was 3,578,226,270 equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by 5.

(2) Cash balance includes cash and cash equivalents and marketable securities.

Income from Operations

Operating expenses increased 26.0% to Ps. 31,980 million in 2009, due to (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 business 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. The Mercosur and Latincentro divisions accounted for more than 90% of this increase. Operating margin was 15.4% in 2009, a decline of 1.1 percentage points as compared to 2008.

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. 1,134.9 in 2009, as a result from 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 US import beer category by a significant margin. The increase was primarily driven by our *Dos Equis* brand in the US 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 US dollar. In US 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 US 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. 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, mainly due to continued rationalization and cost containment efforts at the selling expense level in Mexico and Brazil. 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.

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. As of December 31, 2009, there were a total of 7,334 stores in Mexico. 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, not 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.

KEY EVENTS DURING 2009

Coca-Cola FEMSA Acquires Brisa in Colombia

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). This transaction enables to increase Coca-Cola FEMSA's presence in the water business and complement our portfolio. The purchase price of US\$92 million was shared equally by Coca-Cola FEMSA and The Coca-Cola Company. As of June 1st, 2009, pursuant to the transition agreement with Bavaria, Coca-Cola FEMSA started to sell and distribute the Brisa portfolio in Colombia.

Coca-Cola FEMSA Shareholder Meeting

On March 23, 2009, Coca-Cola FEMSA held its Annual Ordinary General Shareholders Meeting during which its shareholders approved the Company's consolidated financial statements for the year ended December 31, 2008, the declaration of dividends corresponding to fiscal year 2008 and the composition of the Board of Directors and Committees for 2009. Shareholders approved the payment of a cash dividend in the amount of Ps. 1,343.9 million. The dividend was paid on April 13, 2009, in the amount of Ps. 0.7278 per each ordinary share, equivalent to Ps. 7.278 per ADR. In addition, shareholders approved an amount of Ps. 400 million, the maximum amount allowed under Mexican law, which is available to the Company for share repurchases in the future, should it decide to use these funds.

FEMSA Shareholder Meeting

On March 25, 2009, FEMSA held its Annual Ordinary General Shareholders Meeting, during which shareholders approved the payment of a cash dividend in the amount of Ps. 1,620 million, consisting of Ps. 0.100985875 per each Series "D" share and Ps. 0.0807887 per each Series "B" share, which amounts to Ps. 0.4847322 per "BD" Unit (BMV: FEMSAUBD) or Ps. 4.847322 per ADS (NYSE: FMX), and Ps. 0.4039435 per "B" Unit (BMV: FEMSAUB). The dividend payment was split into two equal payments, paid on May 4, 2009 and November 3, 2009 with record dates of April 30, 2009 and October 30, 2009, respectively.

Coca-Cola FEMSA Yankee Bond and Certificado Bursátil Maturities Payment

On 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.

FEMSA Agrees to Exchange Beer Operations for 20% Economic Interest in Heineken

On January 11, 2010, FEMSA announced that its Board of Directors unanimously approved a definitive agreement under which FEMSA will exchange its FEMSA Cerveza business for a 20% economic interest in Heineken (HEIA.NA; HEIN.AS; HEIO.NA; HEIO.AS), one of the world's leading brewers. Under the terms of the agreement, FEMSA will 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. Heineken also will assume US\$2.1 billion of indebtedness, including FEMSA Cerveza's unfunded pension obligations. The total transaction was valued at approximately US\$7.347 billion, based on closing prices of 32.92 for Heineken N.V. and 29.38 for Heineken Holding N.V. on January 8, 2010, including the assumed debt. The transaction, which is expected to be completed in the first half of 2010, is subject to customary regulatory approvals, as well as approval by FEMSA, Heineken N.V. and Heineken Holding N.V. shareholders.

Coca-Cola FEMSA Venezuela Currency Devaluation

On January 11, 2010, Coca-Cola FEMSA announced that Venezuelan Government authorities announced a devaluation of its currency, the Bolivar, and the establishment of a multiple exchange rate system. 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 US 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 the one at which we can remit dividends. We are still awaiting a resolution on this matter.

Coca-Cola FEMSA Issues 10-Year Bonds

On February 2, 2010, Coca-Cola FEMSA successfully sold US\$500 million of 10-year bonds at a yield of 4.689% (US Treasury + 105 basis points) with a coupon of 4.625%. This transaction settled on February 5, 2010. The book was more than 6 times oversubscribed versus the initially announced size of US\$400 million. The proceeds will be used for debt refinancing and general corporate purposes.

TO THE BOARD OF DIRECTORS OF FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V.:

In compliance with the provisions of Articles 42 and 43 of the Stock Exchange Market Law (Ley del Mercado de Valores) and the Charter of the Audits Committee, we do hereby inform you about the activities we performed during the year ending on December 31, 2009. In performing our work, we kept in mind the recommendations established in the Code of Corporate Best Practices and the provisions set forth in the Sarbanes-Oxley Act, considering our Company is listed in the U.S. Stock Exchange Market. We met at least quarterly and, based on a work program, we carried out the activities described below:

Internal Control

We made sure that Management, in compliance with its responsibilities regarding internal control, established the general guidelines and the processes necessary for their application and compliance. Additionally, we followed up on the comments and remarks made in this regard by External Auditors as a result of their findings.

We validated the actions taken by the Company in order to comply with section 404 of the Sarbanes-Oxley Act regarding the self-assessment of internal control performed by the Company and to be reported for year 2009. Throughout this process, we followed up on the preventive and corrective measures implemented for any internal control aspects requiring improvement.

Risk Assessment

We periodically evaluated the effectiveness of the Risk Management System, established to identify, measure, record, assess, and control the Company's risks, as well as for the implementation of follow-up measures to assure its effective operation, considering it appropriate.

We reviewed with Management and both External and Internal Auditors, the key risk factors that could adversely affect the Company's operations and patrimony, and it was determined that they have been appropriately identified and managed.

External Auditing

We recommended the Board of Directors to hire external auditors for the Group and its subsidiaries for the fiscal year 2009. For this purpose, we verified their independence and their compliance with the requirements established in the Law. Jointly, we analyzed their approach and work program as well as their coordination with the Internal Audit area.

We remained in constant and direct communication in order to keep abreast of their progress and their remarks, and also to note the comments arising from their review of quarterly and annual financial statements. We were timely informed on their conclusions and reports regarding annual financial statements and followed up on the committed actions implemented resulting from the findings and recommendations provided during their work program.

We authorized the fees paid to external auditors for their audit and other allowed services, and made sure such services would not compromise their independence from the Company.

Taking into account Management views, we carried out an assessment of their services for the previous year and initiated the evaluation process corresponding to the fiscal year 2009.

Internal Auditing

In order to maintain independence and objectiveness, the Internal Audit area reports functionally to the Audit Committee. Therefore:

We reviewed and approved, in due time, their annual activity program and budget. In order to elaborate them, the Internal Audit area took part in the process of identifying risks, establishing controls and testing them, so as to comply with the requirements of Sarbanes-Oxley Law.

We received periodical reports regarding the progress of the approved work program, the departures from it they may have had and the causes thereof.

We followed up on the remarks and suggestions they issued and their proper implementation.

We made sure an annual training plan was implemented.

We reviewed the evaluations of the Internal Audit service done by the business units responsible and the Audit Committee.

Financial Information, Accounting Policies and Reports to Third Parties

We went over corporate quarterly and annual financial statements with the individuals responsible for their preparation and recommended the Board of Directors to approve them and authorize their publication. As a part of this process, we took into account the opinions and remarks from external auditors and made sure the criteria, accounting policies and information used by Management to prepare financial information were all adequate and sufficient and that they were applied consistently with the previous year. As a consequence, the information submitted by Management does reasonably reflect the Company's financial situation, its operating results and the changes in its financial situation for the year ending on December 31, 2009.

We also reviewed the quarterly reports prepared by Management to be submitted to shareholders and the broad public, verifying that such information was prepared through use of the same accounting criteria used to prepare annual information. For our own satisfaction, we reviewed the existence of an integral process that provides a reasonable assurance of fairness in the information content. As a conclusion, we recommend the Board to authorize the publication thereof.

Our review also included the reports as well as any other financial information required by Mexican and United States regulatory authorities.

We approved the inclusion of new accounting procedures issued by the entities in charge of Mexican accounting standards that came into force in 2009, into corporate accounting policies.

We periodically received advance reports about the process that is taking place in the Company for the adoption of International Financial Reporting Standards based on the terms established in the Circular issued by the Mexican National Banking and Securities Commission. At the appropriate time, we will submit to you our recommendations for its implementation.

Compliance with Standards, Legal Issues and Contingencies

We do hereby confirm the existence and reliability of the Company-established controls to ensure compliance with the various legal provisions applicable to the Company. We verified they were properly disclosed in financial information.

We made a periodical review of the various fiscal, legal and labor contingencies occurring in the Company. We oversaw the efficiency of the procedures established for their identification and follow-up, as well as their adequate disclosure and recording.

Code of Conduct

With the support from Internal Auditing, we verified personnel's compliance of the Business Code of Ethics that is currently in force within the Company, the existence of adequate processes for updating it and its diffusion to the employees, as well as the application of sanctions in those cases where violations were detected.

We went over the complaints recorded in the Company's Whistle-Blowing System and followed up on their correct and timely handling.

Administrative Activities

We held regular Committee meetings with Management to stay informed of the running of the Company and of any relevant or unusual activities and events. We also met with external and internal auditors to comment on the way they were doing their work, the constraints they might have met and to facilitate any private communication they might wish to have with the Committee.

In those cases we deemed advisable, requested the support and opinion from independent experts. We did not know of any significant non-compliance with operating policies, internal control system or accounting recording policies.

We held executive meetings that were solely attended by Committee members. In the course of such meetings, agreements and recommendations for Management were established.

The Audit Committee Chairman submitted quarterly reports to the Board of Directors, on the activities carried out.

We reviewed the Audit Committee Charter and made the amendments that we esteemed pertinent in order to maintain it updated, subjecting them to the Board of Directors for their approval.

We verified that the financial expert of the Committee meets the educational background and experience requirements to be considered such and that each Committee Member meets the independence requirements set forth in the related regulations established.

The work performed was duly documented in the minutes prepared for each meeting. Such minutes were properly reviewed and approved by Committee members.

We carried out our annual performance self-assessment and submitted the results to the Chairman of the Board of Directors.

Sincerely,



Alexis E. Rovzar de la Torre
Chairman of the Audit Committee

February 11, 2010



INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of
Fomento Económico Mexicano, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheets of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements for the year ended December 31, 2007 were audited by other auditors whose report dated February 25, 2008, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in conformity with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Fomento Económico Mexicano, S.A.B. de C.V. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations, changes in stockholders' equity and consolidated cash flows, for the years then ended, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from accounting principles generally accepted in the United States (See Notes 26 and 27 to the consolidated financial statements).

As disclosed in Note 2 to the accompanying consolidated financial statements, among other Mexican Financial Reporting Standards ("MFRS"), the Company adopted MFRS B-8 *Consolidated and Combined Financial Statements* during 2009 and MFRS B-2 *Statement of Cash Flows* and MFRS B-10 *Effects of Inflation* during 2008. The application of all of these new standards was prospective in nature.

Mancera, S.C.
A Member Practice of
Ernst & Young Global

C.P.C. Víctor Luis Soulé García

Monterrey, N.L., Mexico
March 22, 2010

Consolidated Balance Sheets

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

At December 31, 2009 and 2008. Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	Note	2009		2008
ASSETS				
Current Assets:				
Cash and cash equivalents		\$ 1,189	Ps. 15,523	Ps. 9,110
Marketable securities	4 B	162	2,113	—
Accounts receivable	6	899	11,732	10,801
Inventories	7	1,138	14,858	13,065
Recoverable taxes		259	3,388	2,951
Other current assets	8	135	1,766	3,060
Total current assets		3,782	49,380	38,987
Investments in shares	9	180	2,344	1,965
Property, plant and equipment	10	4,981	65,038	61,425
Bottles and cases		319	4,162	3,733
Intangible assets	11	5,451	71,181	65,860
Deferred tax asset	23 D	96	1,254	1,247
Other assets	12	1,357	17,732	14,128
TOTAL ASSETS		\$ 16,166	Ps. 211,091	Ps. 187,345

Consolidated Balance Sheets

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

At December 31, 2009 and 2008. Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	Note	2009		2008
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Bank loans and notes payable	17	\$ 292	Ps. 3,816	Ps. 5,799
Current portion of long-term debt	17	386	5,037	5,849
Interest payable		13	170	376
Suppliers		1,512	19,737	16,726
Accounts payable		583	7,607	5,804
Taxes payable		444	5,793	4,044
Other current liabilities	24 A	275	3,607	5,496
Total current liabilities		3,505	45,767	44,094
Long-Term Liabilities:				
Bank loans and notes payable	17	2,666	34,810	32,210
Labor liabilities	15 B	257	3,354	2,886
Deferred tax liability	23 D	74	972	2,400
Contingencies and other liabilities	24 B	794	10,359	8,860
Total long-term liabilities		3,791	49,495	46,356
Total liabilities		7,296	95,262	90,450
Stockholders' Equity:				
Noncontrolling interest in consolidated subsidiaries	20	2,619	34,192	28,074
Controlling interest:				
Capital stock		410	5,348	5,348
Additional paid-in capital		1,574	20,548	20,551
Retained earnings from prior years		3,357	43,835	38,929
Net income		759	9,908	6,708
Cumulative other comprehensive income (loss)	4 V	151	1,998	(2,715)
Controlling interest		6,251	81,637	68,821
Total stockholders' equity		8,870	115,829	96,895
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 16,166	Ps. 211,091	Ps. 187,345

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



José Antonio Fernández Carbajal
Chief Executive Officer



Javier Astaburuaga Sanjines
Chief Financial Officer

Consolidated Income Statements

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

For the years ended December 31, 2009, 2008 and 2007. Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.), except for data per share.

	2009		2008	2007 ⁽¹⁾
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
	4,888	63,826	54,939	48,081
Income from operations	2,069	27,012	22,684	19,736
Other expenses, net (Note 18)	(269)	(3,506)	(2,374)	(1,297)
Comprehensive financing result:				
Interest expense	(398)	(5,197)	(4,930)	(4,721)
Interest income	43	565	598	769
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 instruments	2	25	(1,456)	69
	(346)	(4,516)	(6,825)	(1,553)
Income before income taxes	1,454	18,990	13,485	16,886
Income taxes (Note 23 E)	299	3,908	4,207	4,950
Consolidated net income	\$ 1,155	Ps. 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	Ps. 15,082	Ps. 9,278	Ps. 11,936
Net controlling interest income (U.S. dollars and Mexican pesos) (Note 22):				
Per Series "B" share	\$ 0.04	Ps. 0.49	Ps. 0.33	Ps. 0.42
Per Series "D" share	\$ 0.05	Ps. 0.62	Ps. 0.42	Ps. 0.53

(1) Amounts for the year ended December 31, 2007, are expressed in millions of Mexican pesos as of the end of December 31, 2007 (see Note 2). The accompanying notes are an integral part of these consolidated income statements.

Consolidated Statements of Cash Flows

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

For the years ended December 31, 2009 and 2008. Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

	2009		2008
Cash Flow Generated by (Used in) Operating Activities:			
Income before income taxes	\$ 1,454	Ps. 18,990	Ps. 13,485
Non-cash operating expenses	208	2,716	930
Other adjustments regarding operating activities	168	2,191	1,390
Adjustments regarding investing activities:			
Depreciation	482	6,295	5,508
Amortization	214	2,794	2,560
Loss on sale of long-lived assets	17	221	185
Write-off of long-lived assets	26	336	502
Interest income	(43)	(565)	(598)
Adjustments regarding financing activities:			
Interest expenses	398	5,197	4,930
Foreign exchange loss, net	30	396	1,694
Gain on monetary position, net	(37)	(487)	(657)
Market value (gain) loss on ineffective portion of derivative instruments	(2)	(25)	1,456
	2,915	38,059	31,385
Accounts receivable	(73)	(953)	(367)
Inventories	(191)	(2,496)	(2,900)
Other assets	—	—	35
Suppliers and other accounts payable	239	3,115	1,599
Other liabilities	(41)	(541)	653
Labor liabilities	(52)	(681)	(587)
Income taxes paid	(429)	(5,596)	(6,754)
Net cash flows provided by operating activities	2,368	30,907	23,064
Cash Flow Generated by (Used in) Investing Activities:			
BRISA acquisition, net of cash acquired (see Note 5)	(55)	(717)	—
REMIL acquisition, net of cash acquired (see Note 5)	—	—	(3,633)
Other acquisitions, net of cash acquired	—	—	(233)
Purchase of marketable securities	(153)	(2,001)	—
Interest received	43	565	598
Long-lived assets acquisitions	(654)	(8,536)	(10,186)
Long-lived assets sales	81	1,060	541
Other assets	(280)	(3,658)	(3,460)
Bottles and cases	(68)	(882)	(990)
Intangible assets	(128)	(1,665)	(697)
Net cash flows used in investing activities	(1,214)	(15,834)	(18,060)
Net cash flows available for financing activities	1,154	15,073	5,004
Cash Flow Generated by (Used in) Financing Activities:			
Bank loans obtained	1,607	20,981	22,545
Bank loans repaid	(1,623)	(21,198)	(20,693)
Interest paid	(399)	(5,206)	(5,733)
Dividends paid	(172)	(2,255)	(2,065)
Acquisition of noncontrolling interest	4	49	(223)
Other liabilities payments	(7)	(82)	9
Net cash flows used in financing activities	(590)	(7,711)	(6,160)
Increase (decrease) in cash and cash equivalents	564	7,362	(1,156)
Translation and restatement effects	(90)	(1,171)	97
Initial cash	738	9,635	10,694
Initial restricted cash	(40)	(525)	(238)
Initial balance of cash and cash equivalents, net	698	9,110	10,456
Decrease (increase) in restricted cash of the year	17	222	(287)
Ending balance of cash and cash equivalents, net	\$ 1,189	Ps. 15,523	Ps. 9,110
Marketable securities	162	2,113	—
Total cash, cash equivalents and marketable securities	\$ 1,351	Ps. 17,636	Ps. 9,110

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

Consolidated Statement of Changes in Financial Position

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

For the year ended December 31, 2007. Amounts expressed
in millions of Mexican pesos (Ps.).

2007 ⁽¹⁾

Resources Generated by (Used in) Operating Activities:

Consolidated net income	Ps. 11,936
Depreciation	4,930
Amortization and other non-cash charges	3,182
Impairment of long-lived assets	93
Deferred income taxes	(239)
	19,902

Working capital:

Accounts receivable	(1,536)
Inventories	(1,812)
Recoverable taxes, net	453
Other current assets and investment in shares available for sale	(668)
Suppliers and other current liabilities	1,987
Interest payable	14
Labor liabilities	(318)

Net resources generated by operating activities 18,022

Resources Generated by (Used in) Investing Activities:

Sale of noncontrolling interest	415
Property, plant and equipment	(6,015)
Other assets	(4,472)
Investment in shares	(1,040)
Bottles and cases	(861)
Intangible assets	(336)
Other business acquisitions	(128)

Net resources used in investing activities (12,437)

Resources Generated by (Used in) Financing Activities:

Bank loans obtained	9,660
Bank loans paid	(10,851)
Amortization in real terms of long-term liabilities	(1,202)
Dividends declared and paid	(1,909)
Contingencies and other liabilities	(45)
Cumulative translation adjustment	446

Net resources used in financing activities (3,901)

Cash and cash equivalents:

Net increase	1,684
Cash received in acquisitions	6
Initial balance	8,766
Ending balance	Ps. 10,456

(1) Amounts for year ended December 31, 2007, are expressed in millions of Mexican pesos as of the end of December 31, 2007 (see Note 2).
The accompanying notes are an integral part of this consolidated statement of changes in financial position.

Consolidated Statements of Changes in Stockholders' Equity

<i>For the years ended December 31, 2009, 2008 and 2007. Amounts expressed in millions of Mexican pesos (Ps.).</i>	Capital Stock	Additional Paid-in Capital
Balances at December 31, 2006 ⁽¹⁾	Ps. 5,348	Ps. 20,557
Transfer of prior year net income		
Dividends declared and paid (Note 21)		
Sale of noncontrolling interest		55
Acquisition by FEMSA Cerveza of noncontrolling interest		
Comprehensive income		
Balances at December 31, 2007 ⁽¹⁾	5,348	20,612
Transfer of prior year net income		
Change in accounting principles (Note 2 G and I)		
Dividends declared and paid (Note 21)		
Acquisitions by Coca-Cola FEMSA of noncontrolling interest (Note 5)		(61)
Other transactions of noncontrolling interest		
Comprehensive income		
Balances at December 31, 2008	5,348	20,551
Transfer of prior year net income		
Change in accounting principle (Note 2 C)		
Dividends declared and paid (Note 21)		
Acquisition by FEMSA Cerveza of noncontrolling interest		(3)
Comprehensive income		
Balances at December 31, 2009	Ps. 5,348	Ps. 20,548

*(1) Amounts as of December 31, 2007 and 2006, are expressed in millions of Mexican pesos as of the end of December 31, 2007 (see Note 2).
The accompanying notes are an integral part of these consolidated statements of changes in stockholders' equity.*

Retained Earnings from Prior Years		Net Income	Cumulative Other Comprehensive Income (Loss)	Controlling Interest	Noncontrolling Interest in Consolidated Subsidiaries	Total Stockholders' Equity					
Ps.	32,529	Ps.	7,127	Ps.	(8,907)	Ps.	56,654	Ps.	21,554	Ps.	78,208
	7,127		(7,127)		—		—		—		—
	(1,525)				(1,525)		(384)		(1,909)		
					55		360		415		
	(23)				(23)		(16)		(39)		
			8,511		906		9,417		3,561		12,978
	38,108		8,511		(8,001)		64,578		25,075		89,653
	8,511		(8,511)		—		—		—		—
	(6,070)				6,424		354		—		354
	(1,620)						(1,620)		(445)		(2,065)
							(61)		(162)		(223)
			6,708		(1,138)		5,570		91		91
			6,708		(1,138)		5,570		3,515		9,085
	38,929		6,708		(2,715)		68,821		28,074		96,895
	6,708		(6,708)		—		—		—		—
	(182)				(182)		(182)		—		(182)
	(1,620)						(1,620)		(635)		(2,255)
							(3)		19		16
			9,908		4,713		14,621		6,734		21,355
Ps.	43,835	Ps.	9,908	Ps.	1,998	Ps.	81,637	Ps.	34,192	Ps.	115,829

Notes to the Consolidated Financial Statements

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

For the years ended December 31, 2009, 2008 and 2007.

Amounts expressed in millions of U.S. dollars (\$) and in millions of Mexican pesos (Ps.).

NOTE 1. ACTIVITIES OF THE COMPANY.

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

Subholding Company	% Ownership	Activities
Coca-Cola FEMSA, S.A.B. de C.V. and subsidiaries ("Coca-Cola FEMSA")	53.7% (63.0% of the voting shares)	Production, distribution and marketing of certain Coca-Cola trademark beverages in Mexico, Guatemala, Nicaragua, Costa Rica, Panama, Colombia, Venezuela, Brazil and Argentina. The Coca-Cola Company indirectly owns 31.6% of Coca-Cola FEMSA's capital stock. In addition, shares representing 14.7% of Coca-Cola FEMSA's capital stock are traded on the Bolsa Mexicana de Valores (Mexican Stock Exchange "BMV") and The New York Stock Exchange, Inc. ("NYSE").
FEMSA Cerveza, S.A. de C.V. and subsidiaries ("FEMSA Cerveza")	100%	Production, distribution and marketing of beer through its principal operating subsidiary, Cervecería Cuauhtémoc Moctezuma, S.A. de C.V., which operates six breweries throughout Mexico and eight breweries in Brazil through its subsidiary Cervejarias Kaiser Brasil, S.A. FEMSA Cerveza produces and distributes different brands of beer, of which most significant in terms of sales are: Tecate, Tecate Light, Sol, Carta Blanca in Mexico, and Kaiser and Bavaria in Brazil.
FEMSA Comercio, S.A. de C.V. and subsidiaries ("FEMSA Comercio")	100%	Operation of a chain of convenience stores in Mexico under the trade name "OXXO."
Other companies	100%	Companies engaged in the production and distribution of labels, plastic cases, coolers and commercial refrigeration equipment; as well as transportation logistics and maintenance services to FEMSA's subsidiaries and to third parties.

NOTE 2. BASIS OF PRESENTATION.

The consolidated financial statements include the financial statements of FEMSA and those companies in which it exercises control. All intercompany account balances and transactions have been eliminated in consolidation.

The accompanying consolidated financial statements were prepared in accordance with *Normas de Información Financiera* (Mexican Financial Reporting Standards or "Mexican FRS"), individually referred to as "NIFs," and are stated in millions of Mexican pesos ("Ps."). The translation of Mexican pesos into U.S. dollars ("\$") is included solely for the convenience of the reader, using the noon buying exchange rate published by the Federal Reserve Bank of New York of 13.0576 pesos per U.S. dollar as of December 31, 2009.

The Company classifies its costs and expenses by function in the consolidated income statement, in order to conform to the industry's practices where the Company operates. The income from operations line in the income statement is the result of subtracting cost of sales and operating expenses from total revenues and it has been included for a better understanding of the Company's financial and economic performance.

Figures presented for the year ended December 31, 2007, have been restated and translated as of December 31, 2007, which is the date of the last comprehensive recognition of the effects of inflation in the financial information in inflationary and non-inflationary economic environments. Beginning on January 1, 2008 and according to NIF B-10 "Effects of Inflation," only inflationary economic environments have to recognize inflation effects. As described in Note 4 A, since 2008 the Company has operated in a non-inflationary economic environment in Mexico. Figures as of December 31, 2008 and 2007 are presented as they were reported in last year; as a result figures have not been comprehensively restated as required by NIF B-10 for reporting entities that operate in non-inflationary economic environments.

The consolidated financial statements as of December 31, 2008 present certain reclassifications for comparable purpose (see Note 4 J). Additionally, the amount presented as an account receivable with MolsonCoors as of December 31, 2008 related to Kaiser's contingencies indemnities, which was presented originally offset of loss contingencies within contingencies and other liabilities in the consolidated balance sheet, has been reclassified to other assets for comparable purposes.

The results of operations of businesses acquired by FEMSA are included in the consolidated financial statements since the date of acquisition. As a result of certain acquisitions (see Note 5), the consolidated financial statements are not comparable to the figures presented in prior years.

On March 3, 2010, the Board of Directors of FEMSA unanimously approved the issuance of the Company's consolidated financial statements. The accompanying consolidated financial statements and their accompanying notes will be presented at the FEMSA's stockholders meeting on April 26, 2010. FEMSA's stockholders have authority to approve or modify the Company's consolidated financial statements.

On January 1, 2009, 2008 and 2007 several Mexican FRS came into effect. Such changes and their application are described as follows:

A) NIF B-7, "Business Combinations":

In 2009, the Company adopted NIF B-7 "Business Combinations," which is an amendment to the previous Bulletin B-7 "Business Acquisitions." NIF B-7 establishes general rules for recognizing the fair value of net assets of businesses acquired as well as the fair value of noncontrolling interests, at the purchase date. This statement differs from the previous Bulletin B-7 in the following: a) To recognize all assets and liabilities acquired at their fair value, including the noncontrolling interest based on the acquirer accounting policies, b) acquisition-related costs and restructuring expenses should not be part of the purchase price, and c) changes to tax amounts recorded in acquisitions must be recognized as part of the income tax provision. This pronouncement was applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

B) NIF C-7, "Investments in Associates and Other Permanent Investments":

NIF C-7 "Investments in Associates and Other Permanent Investments," establishes general rules of accounting recognition for the investments in associated and other permanent investments not jointly or fully controlled or that are significantly influenced by an entity. This pronouncement includes guidance to determine the existence of significant influence. Previous Bulletin B-8 "Consolidated and combined financial statements and assessment of permanent share investments," defined that permanent share investments were accounted for by the equity method if the entity held 10% or more of its outstanding shares. NIF C-7 establishes that permanent share investments have to be accounted for by equity method if: a) an entity holds 10% or more of a public entity, b) an entity holds 25% or more of a non-public company, or c) an entity has significant influence in its investment as defined in NIF C-7. The Company adopted NIF C-7 on January 1, 2009, and its adoption did not have a significant impact in its consolidated financial results.

C) NIF C-8, "Intangible Assets":

In 2009, the Company adopted NIF C-8 "Intangible Assets" which is similar to previous Bulletin C-8 "Intangible Assets." NIF C-8, establishes the rules of valuation, presentation and disclosures for the initial and subsequent recognition of intangible assets that are acquired either individually, through acquisition of an entity, or generated internally in the course of the entity's operations. This NIF considers intangible assets as non-monetary items, broadens the criteria of identification to include not only if they are separable (asset could be sold, transferred or used by the entity) but also whether they come from contractual or legal rights. NIF C-8 establishes that preoperative costs capitalized before this standard went into effect should have intangible assets characteristics, otherwise preoperative costs must be expensed as incurred. The impact of adopting NIF C-8 was a Ps. 182, net of deferred income tax, regarding prior years preoperative costs that did not have intangible asset characteristics, charge to retained earnings in the consolidated financial statements and is presented as a change in accounting principle in the consolidated statements of changes in stockholders' equity.

D) NIF D-8, "Share-Based Payments":

In 2009, the Company adopted NIF D-8 "Share-Based Payments" which establishes the recognition of share-based payments. When an entity purchases goods or pays for services with equity instruments, the NIF requires the entity to recognize those goods and services at fair value and the corresponding increase in equity. If the entity cannot determine the fair value of goods and services, it should determine it using an indirect method, based on fair value of equity instruments. This pronouncement substitutes the supplementary use of IFRS 2 "Share-Based Payments." The adoption of NIF D-8 did not impact the Company's financial statements.

E) NIF B-8, "Consolidated and Combined Financial Statements":

NIF B-8 "Consolidated and Combined Financial Statements," issued in 2008 amends Bulletin B-8 "Consolidated and Combined Financial Statements and Assessment of Permanent Share Investments." Prior Bulletin B-8 based its consolidation principle mainly on ownership of the majority voting capital stock. NIF B-8 differs from previous Bulletin B-8 in the following: a) defines control as the power to govern financial and operating policies, b) establishes that there are other facts, such as contractual agreements that have to be considered to determine if an entity exercises control or not, c) defines "Specific-Purpose Entity" ("SPE"), as those entities that are created to achieve a specific purpose and are considered within the scope of this pronouncement, d) establishes new terms as "controlling interest" instead of "majority interest" and "noncontrolling interest" instead "minority interest," and e) confirms that noncontrolling interest must be assessed at fair value at the subsidiary acquisition date. NIF B-8 shall be applied prospectively, beginning on January 1, 2009 (see Note 26 A).

F) NIF B-2, "Statement of Cash Flows":

In 2008, the Company adopted NIF B-2 "Statement of Cash Flows." As established in NIF B-2, the Consolidated Statement of Cash Flows is presented as part of these financial statements for the years ended December 31, 2009 and 2008. For the year ended December 31, 2007, NIF B-2 requires the presentation of the Statement of Changes in Financial Position which is not comparable to the Statement of Cash Flows. The adoption of NIF B-2 also resulted in several complementary disclosures not previously required.

G) NIF B-10, "Effects of Inflation":

In 2008, the Company adopted NIF B-10 "Effects of Inflation." Before 2008, the Company restated prior year financial statements to reflect the impact of current period inflation for comparability purposes.

NIF B-10 establishes two types of inflationary environments: a) Inflationary Economic Environment; this is when cumulative inflation of the three preceding years is 26% or more. In such case, inflation effects should be recognized in the financial statements by applying the integral method as described in NIF B-10; the recognized restatement effects for inflationary economic environments is made starting in the period that the entity becomes inflationary; and b) Non-Inflationary Economic Environment; this is when cumulative inflation of the three preceding years is less than 26%. In such case, no inflationary effects should be recognized in the financial statements, keeping the recognized restatement effects until the last period in which the inflationary accounting was applied.

In order to reverse the effects of inflationary accounting, NIF B-10 establishes that the results of holding non-monetary assets (RETANM) of previous periods should be reclassified in retained earnings. On January 1, 2008, the amount of RETANM reclassified in retained earnings was Ps. 6,070 (see Consolidated Statements of Changes in Stockholders' Equity).

Through December 31, 2007, the Company accounted for inventories at replacement cost. As a result of NIF B-10 adoption, beginning in 2008, the Company carries out the inventories valuation based on valuation methods described in Bulletin C-4 "Inventories." Inventories from Subholding Companies that operate in inflationary environments are restated using inflation factors. The change in accounting for inventories impacted the consolidated income statement, through an increase to cost of sales of Ps. 350 as of December 31, 2008.

In addition, NIF B-10 eliminates the restatement of imported equipment by applying the inflation factors and exchange rate of the country where the asset was purchased. Beginning in 2008, these assets are recorded using the exchange rate of the acquisition date. Subholding Companies that operate in inflationary environments should restate imported equipment using the inflation factors of the country where the asset is acquired. The change in this methodology did not significantly impact the consolidated financial statements of the Company.

H) NIF B-15, "Translation of Foreign Currencies":

NIF B-15 went into effect in 2008 and incorporates the concepts of recording currency, functional currency and reporting currency, and establishes the methodology to translate financial information of a foreign entity, based on those terms. Additionally, this rule is aligned with NIF B-10, which defines translation procedures of financial information from subsidiaries that operate in inflationary and non-inflationary environments. Prior to the application of this rule, translation of financial information from foreign subsidiaries was according to inflationary environments methodology. The adoption of this pronouncement is prospective and did not impact the consolidated financial statements of the Company (see Note 3).

I) NIF D-3, "Employee Benefits":

The Company adopted NIF D-3 in 2008, which eliminates the recognition of the additional liability which resulted from the difference between obligations for accumulated benefits and the net projected liability. On January 1, 2008, the additional liability derecognized amounted to Ps. 1,510, from which Ps. 948 corresponds to the intangible asset and Ps. 354 to the controlling cumulative other comprehensive income, net from its deferred tax of Ps. 208.

Through 2007, the labor costs of past services of 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 obligation and unrecognized prior service costs.

As a result, the adoption of NIF D-3 increased the amortization of prior service costs of severance indemnities by Ps. 45 in 2008 compared to 2007. This accounting change did not impact prior service cost of pension and retirement plans amortization since the remaining amortization period as of the adoption date was already five years or less. For the years ended December 31, 2009, 2008 and 2007, labor costs of past services amounted to Ps. 204, Ps. 221 and Ps. 146, respectively; and were recorded within the operating income (see Note 15).

During 2007, actuarial gains and losses of severance indemnities were amortized during the personnel's average labor life. Beginning in 2008, actuarial gains and losses of severance indemnities are registered in the operating income of the year they were generated and the balance of unrecognized actuarial gains and losses as of January 1, 2008 was recorded in other expenses (see Note 18) and amounted to Ps. 198.

J) NIF B-3, "Income Statement":

In 2007, NIF B-3 "Income Statement" went into effect. NIF B-3 establishes generic standards for presenting and structuring the statement of income, minimum content requirements and general disclosure standards. Additionally, statutory employee profit sharing ("PTU") should be presented within other expenses pursuant to Mexican FRS Interpretation No. 4.

K) NIF D-6, "Capitalization of the Comprehensive Financing Result":

In 2007, the Company adopted NIF D-6. This standard establishes that the comprehensive financing result generated by borrowings obtained to finance investment projects must be capitalized as part of the cost of long-term assets when certain conditions are met and amortized over the estimated useful life of the related asset. As of December 31, 2009 the comprehensive financing result capitalized regarding long-term assets amounted to Ps. 145. In 2008 and 2007, the application of this standard did not significantly impact the Company's financial information.

NOTE 3. FOREIGN SUBSIDIARY INCORPORATION.

The accounting records of foreign subsidiaries are maintained in local currency and in accordance with local accounting principles of each country. For incorporation into the Company's consolidated financial statements, each foreign subsidiary's individual financial statements are adjusted to Mexican FRS, and beginning in 2008, translated into Mexican pesos, as described as follows:

- For inflationary economic environments, the inflation effects of the origin country are recognized, and subsequently translated into Mexican pesos using the year-end exchange rate for the balance sheets and income statements; and
- For non-inflationary economic environments, assets and liabilities are translated into Mexican pesos using the period-end exchange rate, stockholders' equity is translated into Mexican pesos using the historical exchange rate, and the income statement is translated using the average exchange rate of each month.

Country	Functional/Recording Currency	Local Currencies to Mexican Pesos				
		Average Exchange Rate for		Exchange Rate as of December 31,		
		2009	2008	2009	2008	2007 ⁽¹⁾
Mexico	Mexican peso	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00	Ps. 1.00
Guatemala	Quetzal	1.66	1.47	1.56	1.74	1.42
Costa Rica	Colon	0.02	0.02	0.02	0.02	0.02
Panama	U.S. dollar	13.52	11.09	13.06	13.54	10.87
Colombia	Colombian peso	0.01	0.01	0.01	0.01	0.01
Nicaragua	Cordoba	0.67	0.57	0.63	0.68	0.57
Argentina	Argentine peso	3.63	3.50	3.44	3.92	3.45
Venezuela ⁽²⁾	Bolivar	6.31	5.20	6.07	6.30	5.05
Brazil	Reai	6.83	6.11	7.50	5.79	6.13

(1) Year-end exchange rates used for translation of financial information.

(2) Equals 2.150 bolivars per one U.S. dollar, translated to Mexican pesos applying the average exchange rate or period-end rate. Refer to Note 29 for discussion of a subsequent event impacting this exchange rate.

Prior to the adoption of NIF B-10 in 2008, translation of financial information from all foreign subsidiaries was according to inflationary environments methodology described above.

The variations in the net investment in foreign subsidiaries generated by exchange rate fluctuation are included in the cumulative translation adjustment, which is recorded in stockholders' equity as part of cumulative other comprehensive income (loss).

Beginning in 2003, the government of Venezuela established a fixed exchange rate control of 2.150 bolivars per U.S. dollar, which is the Company's cross-currency rate used to translate the financial statements of its Venezuelan subsidiaries. The Company has operated under exchange controls in Venezuela since 2003 that affect its ability to remit dividends abroad or make payments other than in local currencies and that may increase the real price to us of raw materials purchased in local currency.

Intercompany financing balances with foreign subsidiaries are considered as long-term investments, since there is no plan to pay such financing in the foreseeable future. Monetary position and exchange rate fluctuation regarding this financing are recorded in equity as part of cumulative translation adjustment, in cumulative other comprehensive income (loss).

The translation of assets and liabilities denominated in foreign currencies into Mexican pesos is for consolidation purposes and does not indicate that the Company could realize or settle the reported value of those assets and liabilities in Mexican pesos. Additionally, this does not indicate that the Company could return or distribute the reported Mexican peso value equity to its shareholders.

NOTE 4. SIGNIFICANT ACCOUNTING POLICIES.

The Company's accounting policies are in accordance with Mexican FRS, which require that the Company's management make certain estimates and use certain assumptions to determine the valuation of various items included in the consolidated financial statements. The Company's management believes that the estimates and assumptions used were appropriate as of the date of these consolidated financial statements. However actual results are subject to future events and uncertainties, which could materially impact the Company's actual performance.

The significant accounting policies are as follows:

A) Recognition of the Effects of Inflation in Countries with Inflationary Economic Environment:

In 2008 and 2009, the Company recognizes the effects of inflation in the financial information of its subsidiaries that operate in inflationary economic environments (when cumulative inflation of the three preceding years is 26% or more), through the integral method, which consists of (see Note 2 G):

- Using inflation factors to restate non-monetary assets such as inventories, fixed assets, intangible assets, including related costs and expenses when such assets are consumed or depreciated;
- Applying the appropriate inflation factors to restate capital stock, additional paid-in capital and retained earnings by the necessary amount to maintain the purchasing power equivalent in Mexican pesos on the dates such capital was contributed or income was generated up to the date these consolidated financial statements are presented; and
- Including in the Comprehensive Financing Result the gain or loss on monetary position (see Note 4 T).

The Company restates the financial information of its subsidiaries that operate in inflationary economic environments using the consumer price index of each country.

The operations of the Company are classified as follows considering the cumulative inflation of the three preceding years of 2009. The following classification was also applied for the 2008 period:

	Inflation Rate 2009	Cumulative Inflation 2008–2006	Type of Economy
Mexico	3.6%	15.0%	Non-Inflationary
Guatemala ⁽¹⁾	(0.3)%	25.9%	Non-Inflationary
Colombia	2.0%	18.9%	Non-Inflationary
Brazil	4.1%	15.1%	Non-Inflationary
Panama	1.9%	16.0%	Non-Inflationary
Venezuela	25.1%	87.5%	Inflationary
Nicaragua	0.9%	45.5%	Inflationary
Costa Rica	4.0%	38.1%	Inflationary
Argentina	7.7%	27.8%	Inflationary

(1) According to The Economic and Financial Board of Guatemala, the expected inflation rate for the following years would decrease. As a result, the Company still classifies Guatemala as a non-inflationary economy according to NIF B-10 "Effects of Inflation."

B) Cash and Cash Equivalents and Marketable Securities:

Cash and Cash Equivalents:

Cash consists of non-interest bearing bank deposits. Cash equivalents consist principally of short-term bank deposits and fixed-rate investments with original maturities of three months or less recorded at its acquisition cost plus interest income not yet received, which is similar to listed market prices. As of December 31, 2009 and 2008, cash equivalents amounted to Ps. 10,365 and Ps. 4,585, respectively.

Marketable Securities:

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each statement of financial position date. Marketable securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income. Interest and dividends on securities classified as available-for-sale are included in investment income. The fair values of the investments are readily available based on quoted market prices. The following is a detail of available-for-sale securities:

December 31, 2009	Amortized Cost	Gross Unrealized Gain	Fair Value
Debt securities	Ps. 2,001	Ps. 112	Ps. 2,113

C) Allowance for Doubtful Accounts:

Allowance for doubtful accounts is based on an evaluation of the aging of the receivable portfolio and the economic situation of the Company's clients, as well as the Company's historical loss rate on receivables and the economic environment in which the Company operates. The carrying value of accounts receivable approximates its fair value as of both December 31, 2009 and 2008.

D) Inventories and Cost of Sales:

The operating segments of the Company use inventory costing methodologies provided by Bulletin C-4 "Inventories" to value their inventories, such as average cost in FEMSA Cerveza and Coca-Cola FEMSA and retail method in FEMSA Comercio. Advances to suppliers of raw materials are included in the inventory account.

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

E) Other Current Assets:

Other current assets are comprised of payments for services that will be received over the next 12 months and the fair market value of derivative financial instruments with maturity dates of less than one year (see Note 4 U).

Prepaid expenses principally consist of advertising, promotional, leasing and insurance expenses, and are recognized in the income statement when the services or benefits are received.

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

Promotional costs are expensed as incurred, except for those promotional costs related to the launching of new products or presentations before they are on the market. These costs are recorded as prepaid expenses and amortized over the period during which they are estimated to increase sales of the related products or container presentations to normal operating levels, which is generally no longer than one year.

Additionally, as of December 31, 2009 and 2008, the Company has restricted cash which is pledged as collateral of accounts payable in different currencies as follows. The restricted cash is presented as part of other current assets due to its short-term nature.

	2009		2008
Venezuelan bolivars	Ps. 161	Ps.	337
Mexican pesos	31		134
Brazilian reais	111		54
	Ps. 303	Ps.	525

F) Bottles and Cases:

Non-returnable bottles and cases are recorded in the results of operations at the time of product sale. Returnable bottles and cases are recorded at acquisition cost. There are two types of returnable bottles and cases:

- Those that are in the Company's control within its facilities, plants and distribution centers; and
- Those that have been placed in the hands of customers, but still belong to the Company.

Breakage of returnable bottles and cases within plants and distribution centers is recorded as an expense as it is incurred. For the years ended December 31, 2009, 2008 and 2007, breakage expense amounted to Ps. 903, Ps. 782 and Ps. 850, respectively. The Company estimates that breakage expense of returnable bottles and cases in plants and distribution centers is similar to the depreciation calculated on an estimated useful life of approximately five years for returnable beer bottles, four years for returnable soft drinks glass bottles and plastic cases, and 18 months for returnable soft drink plastic bottles.

Returnable bottles and cases that have been placed in the hands of customers are subject to an agreement with a retailer pursuant to which the Company retains ownership. These bottles and cases are monitored by sales personnel during periodic visits to retailers and any breakage identified is charged to the retailer. Bottles and cases that are not subject to such agreements are expensed when placed in the hands of retailers.

The Company's returnable bottles and cases in the market and for which a deposit from customers has been received are presented net of such deposits, and the difference between the cost of these assets and the deposits received is depreciated according to their useful lives.

G) Investments in Shares:

Investments in shares of associated companies where the Company holds 10% or more of a public company, 25% or more of a non-public company, or exercises significant influence according to NIF C-7 (see Note 2 B), are initially recorded at their acquisition cost and are subsequently accounted for by the equity method. Investments in affiliated companies in which the Company does not have significant influence are recorded at acquisition cost and restated using the consumer price index if that entity operates in an inflationary environment.

H) Property, Plant and Equipment:

Property, plant and equipment are initially recorded at their cost of acquisition and/or construction. The comprehensive financing result generated to fund long-term assets investment is capitalized as part of the total acquisition cost. As of December 31, 2009, the Company has capitalized Ps. 145 based on a capitalization weighted average rate of 8.08% for long-term assets investments that require more than the operating cycle of the Company to get ready for its intended use. As of December 31, 2008 and 2007, the capitalization of the comprehensive financing result did not have a significant impact in the consolidated financial statements. Major maintenance costs are capitalized as part of total acquisition cost. Routine maintenance and repair costs are expensed as incurred.

Investments in progress consist of long-lived assets not yet in service, in other words, that are not yet used for the purpose that they were bought, built or developed. The Company expects to complete those investments during the following 12 months.

Depreciation is computed using the straight-line method over acquisition cost, reduced by their residual values. The Company estimates depreciation rates, considering the estimated remaining useful lives of the assets.

The estimated useful lives of the Company's principal assets are as follows:

	Years
Buildings and construction	40–50
Machinery and equipment	12–20
Distribution equipment	10–12
Refrigeration equipment	5–7
Information technology equipment	3–5

I) Other Assets:

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

- Agreements with customers for the right to sell and promote the Company's products during certain periods of time, which are considered monetary assets and amortized under two methods, in accordance with the terms of such agreements:
 - Actual volume method, which amortizes the proportion of the volume actually sold to the retailer over the volume target (approximately 85% of the agreements of FEMSA Cerveza are amortized on this basis); and
 - Straight-line method, which amortizes the asset over the life of the contract (the remaining 15% of the agreements of FEMSA Cerveza and 100% of the agreements of Coca-Cola FEMSA are amortized on this basis).

In addition, for agreements amortized based on the actual volume method, the Company periodically compares the amortization calculated based on the actual volume method against the amortization that would have resulted under the straight-line method and records a provision to the extent that the recorded amortization is less than what would have resulted under the straight-line method. The amortization is recorded by reducing net sales, which during years ended December 31, 2009, 2008 and 2007, amounted to Ps. 1,889, Ps. 1,477 and Ps. 1,360, respectively.

- Leasehold improvements are amortized using the straight-line method, over the shorter of the useful life of the assets or a term equivalent to the lease period. The amortization of leasehold improvements as of December 31, 2009, 2008 and 2007 were Ps. 710, Ps. 668 and Ps. 581, respectively.

J) Intangible Assets:

Intangible assets represent payments whose benefits will be received in future years. These assets are classified as either intangible assets with a finite useful life or intangible assets with an indefinite useful life, in accordance with the period over which the Company is expected to receive the benefits.

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

- Information technology and management systems costs incurred during the development stage which are currently in use. Such amounts were capitalized and then amortized using the straight-line method over four years. Expenses that do not fulfill the requirements for capitalization are expensed as incurred.
- Other computer systems cost in the development stage, not yet in use. Such amounts are capitalized as they are expected to add value such as income or cost savings in the future. Such amounts will be amortized on a straight-line basis over their estimated useful life after they are placed in service.
- Long-term alcohol licenses are amortized using the straight-line method. In 2009, FEMSA Cerveza reviewed the expected useful life of long-term alcohol licenses and changed its estimation from 6 to 15 years. The net effect of this change is a decrease in amortization of Ps. 84 in the consolidated financial results as of December 31, 2009. Beginning in 2009, long-term alcohol licenses are presented as part of intangible assets with a finite useful life. Prior year balances have been reclassified from other assets to intangible assets for comparable purposes.

- Through 2008, start-up expenses, which represented costs incurred prior to the opening of OXXO stores with the characteristics of an intangible asset internally developed. Such amounts were amortized on a straight-line basis in accordance with the terms of the lease contract. In 2009, according to NIF C-8, these amounts were reclassified in retained earnings (see Note 2 C).

Intangible assets with indefinite lives are not amortized and are subject to annual impairment tests or more frequently if necessary. These assets are recorded in the functional currency of the subsidiary in which the investment was made and are subsequently translated into Mexican pesos applying the closing rate of each period. Where inflationary accounting is applied, the intangible assets are restated applying inflation factors of the country of origin and then translated into Mexican pesos at the year-end exchange rate. The Company's intangible assets with indefinite lives mainly consist of:

- Coca-Cola FEMSA's rights to produce and distribute Coca-Cola trademark products in the territories acquired. These rights are contained in agreements that are standard contracts that The Coca-Cola Company has with its bottlers. Until 2009, for most Coca-Cola FEMSA's territories, except in Mexico and Argentina, the bottler agreements were extended through extension letters. In Brazil the bottler agreement in effect is only for the acquired territory of Refrigerantes Minas Gerais Ltda. or REMIL. There are four bottler agreements for Coca-Cola FEMSA's territories in Mexico; two expire in June 2013, and the other two in May 2015. The bottler agreement for Argentina expires in September 2014.

The Coca-Cola Company and Coca-Cola FEMSA are following administrative steps to execute the bottler agreements substantially in similar terms and conditions to the agreements previously executed between The Coca-Cola Company and Coca-Cola FEMSA for Brazil, Colombia, Venezuela, Guatemala, Costa Rica, Nicaragua and Panama, which will expire in Brazil in April 2014, in Colombia in June 2014, in Venezuela in August 2016, in Guatemala in March 2015, in Costa Rica in September 2017, in Nicaragua in May 2016 and in Panama in November 2014. All of the Company's bottler agreements are renewable for ten-year terms, subject to the right of each party to decide not to renew any of these agreements. In addition, these agreements generally may be terminated in the case of material breach. Termination would prevent Coca-Cola FEMSA from selling Coca-Cola trademark beverages in the affected territory and would have an adverse effect on its business, financial conditions, results of operations and prospects.

- Trademarks and distribution rights, recognized as a result of the acquisition of the 30% of FEMSA Cerveza and payments made by FEMSA Cerveza in the acquisitions of previously granted franchises; and
- Trademarks recognized as a result of the acquisition of Kaiser.

Goodwill represents the difference between the price paid and the fair value of the shares and/or net assets acquired not directly associated with another intangible asset. Goodwill is recorded in the functional currency of the subsidiary in which the investment was made and then goodwill is translated to Mexican pesos using the year-end exchange rate. Where inflationary accounting is applied, goodwill is restated by applying inflation factors of the country of origin and translated to Mexican pesos using the year-end exchange rate. As of December 31, 2009, and 2008 the Company has goodwill resulting from the Kaiser acquisition which amounted to Ps. 4,937 and Ps. 3,821, respectively.

K) Impairment of Long-Lived Assets and Goodwill:

The Company reviews the carrying value of its long-lived assets and goodwill for impairment and determines whether impairment exists, by comparing the book value of the assets with its fair value which is calculated using recognized methodologies. In case of impairment, the Company records the resulting fair value.

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

For indefinite life intangible assets, such as distribution rights and trademarks, the Company tests for impairment on an annual basis and whenever certain circumstances indicate that the carrying amount of those intangible assets exceeds its implied fair value calculated using recognized methodologies consistent with them.

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

Impairment charges regarding long-lived assets and goodwill are recognized in other expenses.

For the year ended December 31, 2009, the Company has recorded in other expenses Ps. 25 regarding an indefinite life intangible asset that is not expected to generate cash flows in the future. In 2008 and 2007, the Company did not record any impairment regarding indefinite life intangible assets and goodwill.

L) Payments from The Coca-Cola Company:

The Coca-Cola Company participates in certain advertising and promotional programs as well as in Coca-Cola FEMSA's refrigeration equipment and returnable bottles investment program. The contributions received for advertising and promotional incentives are included as a reduction of selling expenses. The contributions received for the refrigeration equipment and returnable bottles investment program are recorded as a reduction of the investment in refrigeration equipment and returnable bottles. Total contributions received were Ps. 1,945, Ps. 1,995 and Ps. 1,582 during the years ended December 31, 2009, 2008 and 2007, respectively.

M) Labor Liabilities:

Labor liabilities include obligations for pension and retirement plans, seniority premiums, postretirement medical services and severance indemnity liabilities other than restructuring, all based on actuarial calculations, using the projected unit credit method. Costs related to compensated absences, such as vacations and vacation premiums, are recorded on a cumulative basis, in accounts payable.

Labor liabilities are considered to be non-monetary and are determined using long-term assumptions. The yearly cost of labor liabilities is charged to income from operations and labor cost of past services is recorded as expenses over the period during which the employees will receive the benefits of the plan.

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

N) Contingencies:

The Company recognizes a liability for a loss when it is probable that certain effects related to past events, would materialize and could be reasonably estimated. These events and its financial impact are disclosed as loss contingencies in the consolidated financial statements. The Company does not recognize an asset for a gain contingency unless it is certain that will be collected.

O) Commitments:

The Company discloses all its commitments regarding material long-lived assets acquisitions, services agreements that exceed the immediate need of the Company and all contractual obligations (see Note 24 G).

P) Revenue Recognition:

The Company recognizes income according to International Accounting Standard 18 "Revenues" (IAS 18) based on NIF A-8 "Supplement" which allows use of International Standards as supplementary when Mexican FRS does not provide guidance on a specific subject.

Revenue is recognized in accordance with stated shipping terms, as follows:

- For Coca-Cola FEMSA and FEMSA Cerveza domestic sales, upon delivery to the customer and once the customer has taken ownership of the goods. Domestic revenues are defined as the sales generated by the Company for sales realized in the country where the subsidiaries operate. Domestic revenues represented 96% for the years ended December 31, 2009 and 2008, and 97% for the year ended December 31, 2007, respectively;
- For FEMSA Cerveza export sales, upon shipment of goods to customers (FOB shipping point), and transfer of ownership and risk of loss; and
- For FEMSA Comercio retail sales, net revenues are recognized when the product is delivered to customers, and customers take possession of products.

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

Additionally, the Company recognizes deferred income on a straight-line basis over the specified period of an agreement, or based on sales volume related to that agreement. As of December 31 2009 and 2008, the Company has recognized deferred income of Ps. 209 and Ps. 169 in the consolidated income statement as a result of the distribution agreement with Heineken USA.

During 2007 and 2008, Coca-Cola FEMSA sold certain of its private label brands to The Coca-Cola Company. Because Coca-Cola FEMSA has significant continuing involvement with these brands, (i.e. it continues producing and selling these products), proceeds

received from The Coca-Cola Company were initially deferred and are being amortized against the related costs of future product sales over the estimated period of such sales. The balance of unearned revenues as of December 31, 2009 and 2008 amounted to Ps. 616 and Ps. 571, respectively. The short-term portions of such amounts are presented as other current liabilities, amounted Ps. 203 and Ps. 139 at December 31, 2009 and 2008, respectively.

Q) Operating Expenses:

Operating expenses are comprised of administrative and selling expenses. Administrative expenses include labor costs (salaries and other benefits) of employees not directly involved in the sale of the Company's products, as well as professional service fees, depreciation of office facilities and amortization of capitalized information technology system implementation costs.

Selling expenses include:

- Distribution: labor costs (salaries and other benefits), outbound freight costs, warehousing costs of finished products, breakage of returnable bottles in the distribution process, depreciation and maintenance of trucks and other distribution facilities and equipment. For the years ended December 31, 2009, 2008 and 2007, these distribution costs amounted to Ps. 15,080, Ps. 12,135 and Ps. 10,601, respectively;
- Sales: labor costs (salaries and other benefits) and sales commissions paid to sales personnel; and
- Marketing: labor costs (salaries and other benefits), promotional expenses and advertising costs.

R) Other Expenses:

Other expenses include Employee Profit Sharing ("PTU"), participation in associated companies, gains or losses on sales of fixed assets, impairment of long-lived assets, contingencies reserves 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.

PTU is applicable to Mexico and Venezuela. In Mexico, employee profit sharing is computed at the rate of 10% of the individual company taxable income, except for considering depreciation of historical rather than restated values, foreign exchange gains and losses, which are not included until the asset is disposed of or the liability is due and other effects of inflation are also excluded. In Venezuela, employee profit sharing is computed at a rate equivalent to 15% of after tax income, and it is no more than four months of salary.

Through 2007, deferred PTU had been recorded when non-recurring temporary differences between the accounting income for the year and the bases used for Mexican employee profit sharing resulted. Since 2008, the Company has not recorded a provision for deferred employee profit sharing because according to the assets and liabilities method described in NIF D-3, the Company does not expect relevant deferred items to materialize. As a result, the Company has not recognized deferred employee profit sharing as of either December 31, 2009 or 2008.

Severance indemnities resulting from a restructuring program and associated with an ongoing benefit arrangement are charged to other expenses on the date when the decision to dismiss personnel under a formal program or for specific causes is taken.

S) Income Taxes:

Income tax is charged to results as incurred as are deferred income taxes. For purposes of recognizing the effects of deferred income taxes in the consolidated financial statements, the Company utilizes both prospective and retrospective analysis over the medium term when more than one tax regime exists per jurisdiction and recognizes the amount based on the tax regime it expects to be subject to, in the future. Deferred income taxes assets and liabilities are recognized for temporary differences resulting from comparing the book and tax values of assets and liabilities plus any future benefits from tax loss carryforwards. Deferred income tax assets are reduced by any benefits for which it is more likely than not that they are not realizable.

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

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

T) Comprehensive Financing Result:

Comprehensive financing result includes interest, foreign exchange gain and losses, market value gain or loss on ineffective portion of derivative financial instruments and gain or loss on monetary position, except for those amounts capitalized and those that are recognized as part of the cumulative comprehensive income (loss). The components of the Comprehensive Financing Result are described as follows:

- Interest: Interest income and expenses are recorded when earned or incurred, respectively, except for interest capitalized on the financing of long-term assets;
- Foreign Exchange Gains and Losses: Transactions in foreign currencies are recorded in local currencies using the exchange rate applicable on the date they occur. Assets and liabilities in foreign currencies are adjusted to the year-end exchange rate, recording the resulting foreign exchange gain or loss directly in the income statement, except for the foreign exchange gain or loss from the intercompany financing foreign currency denominated balances that are considered to be of a long-term investment nature and the foreign exchange gain or loss from the financing of long-term assets (see Note 3);
- Gain or Loss on Monetary Position: Since 2008, the gain or loss on monetary position results from the changes in the general price level of monetary accounts of those subsidiaries that operate in inflationary environments, which is determined by applying inflation factors of the country of origin to the net monetary position at the beginning of each month and excluding the intercompany financing in foreign currency that is considered as long-term investment because of its nature (see Note 3), as well as the gain or loss on monetary position from long-term liabilities to finance long-term assets. Prior to 2008, gain or loss on monetary position was determined for all subsidiaries; and
- Market Value Gain or Loss on Ineffective Portion of Derivative Financial Instruments: Represents the net change in the fair value of the ineffective portion of derivative financial instruments, the net change in the fair value of those derivative financial instruments that do not meet hedging criteria for accounting purposes; and the net change in the fair value of embedded derivative financial instruments.

U) Derivative Financial Instruments:

The Company is exposed to different risks related to cash flows, liquidity, market and credit. As a result the Company contracts different derivative financial instruments in order to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies, the risk of exchange rate and interest rate fluctuations associated with its borrowings denominated in foreign currencies and the exposure to the risk of fluctuation in the costs of certain raw materials.

The Company values and records all derivative financial instruments and hedging activities, including certain derivative financial instruments embedded in other contracts, in the balance sheet as either an asset or liability measured at fair value, considering quoted prices in recognized markets. If such instruments are not traded in a formal market, fair value is determined by applying techniques based upon technical models supported by sufficient, reliable and verifiable market data, recognized in the financial sector. Changes in the fair value of derivative financial instruments are recorded each year in current earnings or as a component of cumulative other comprehensive income (loss), based on the item being hedged and the ineffectiveness of the hedge.

As of December 31, 2009 and 2008, the balance in other current assets of derivative financial instruments was Ps. 81 and Ps. 1,591 (see Note 8), and in other assets Ps. 1,164 and Ps. 212 (see Note 12), respectively. The Company recognized liabilities regarding derivative financial instruments in other current liabilities of Ps. 868 and Ps. 3,089 (see Note 24 A), as of the end of December 31, 2009 and 2008, respectively, and other liabilities of Ps. 1,286 and Ps. 1,377 (see Note 24 B) for the same periods.

The Company designates its financial instruments as cash flow hedges at the inception of the hedging relationship, when transactions meet all hedging accounting requirements. For cash flow hedges, the effective portion is recognized temporarily in cumulative other comprehensive income (loss) within stockholders' equity and subsequently reclassified to current earnings at the same time the hedged item is recorded in earnings. When derivative financial instruments do not meet all of the accounting requirements for hedging purposes, the change in fair value is immediately recognized in net income. For fair value hedges, the changes in the fair value are recorded in the consolidated results in the period the change occurs as part of the market value gain or loss on ineffective portion of derivative financial instruments.

The Company identifies embedded derivatives that should be segregated from the host contract for purposes of valuation and recognition. When an embedded derivative is identified and the host contract has not been stated at fair value the embedded derivative is segregated from the host contract, stated at fair value and is classified as trading. Changes in the fair value of the embedded derivatives at the closing of each period are recognized in the consolidated results.

V) Cumulative Other Comprehensive Income (Loss):

The cumulative other comprehensive income/loss represents the period net income as described in NIF B-3 "Income Statement," plus the cumulative translation adjustment resulted from translation of foreign subsidiaries to Mexican pesos and the effect of unrealized gain/loss on cash flow hedges from derivative financial instruments.

	2009	2008
Unrealized (loss) on cash flow hedges	Ps. (896)	Ps. (1,889)
Cumulative translation adjustment	2,894	(826)
	Ps. 1,998	Ps. (2,715)

The changes in the cumulative translation adjustment were as follows:

	2009	2008
Initial balance	Ps. (826)	Ps. (1,337)
Conversion effect	2,183	(1,023)
Foreign exchange effect from intercompany long-term loans	1,537	1,534
Ending balance	Ps. 2,894	Ps. (826)

The deferred income tax liability from the cumulative translation adjustment amounted to Ps. 592 and 1,709, respectively (see Note 23 D).

W) Provisions:

Provisions are recognized for obligations that result from a past event that will probably result in the use of economic resources and that can be reasonably estimated. Such provisions are recorded at net present values when the effect of the discount is significant. The Company has recognized provisions regarding income tax, contingencies and vacations in the consolidated financial statements.

X) Issuances of Subsidiary Stock:

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

Y) Earnings per Share:

Earnings per share are determined by dividing net controlling income by the average weighted number of shares outstanding during the period.

NOTE 5. ACQUISITIONS.

Coca-Cola FEMSA and FEMSA Cerveza made certain business acquisitions that were recorded using the purchase method. The results of the acquired operations have been included in the consolidated financial statements since Coca-Cola FEMSA and FEMSA Cerveza obtained control of acquired businesses. Therefore, the consolidated income statements and the consolidated balance sheets are not comparable with previous periods. The statement of changes in financial position as of December 31, 2007 presents the effects of the acquisitions and incorporation of such operations by Coca-Cola FEMSA and FEMSA Cerveza, as a single line item within investing activities. The consolidated cash flows as of December 31, 2009 and 2008, show the acquired operations net of the cash related to those acquisitions.

A) Coca-Cola FEMSA:

- i) On February 27, 2009, Coca-Cola FEMSA along with The Coca-Cola Company completed the acquisition of certain assets of the Brisa bottled water business in Colombia. This acquisition was made so as to strengthen Coca-Cola FEMSA's position in the local water business in Colombia. The Brisa bottled water business was previously owned by a subsidiary of SABMiller. Terms of the transaction called for an initial purchase price of \$92, of which \$46 was paid by Coca-Cola FEMSA and \$46 by The Coca-Cola Company. The Brisa brand and certain other intangible assets were acquired by The Coca-Cola Company, while production related property and equipment and inventory was acquired by Coca-Cola FEMSA. Coca-Cola FEMSA also acquired the distribution right over Brisa products in its Colombian territory. In addition to the initial purchase price, contingent purchase consideration also existed related to the net revenues of the Brisa bottled water business subsequent to the acquisition. The total purchase price incurred by the Company was Ps. 730, consisting of Ps. 717 in cash payments, and accrued liabilities of Ps. 13. Transaction related costs were expensed by the Company as incurred as required by Mexican FRS. Following a transition period, Brisa was included in the Coca-Cola FEMSA's operating results beginning June 1, 2009.

The estimated fair value of the Brisa net assets acquired by Coca-Cola FEMSA is as follows:

Production related property and equipment, at fair value	Ps. 95
Distribution rights, at fair value, with an indefinite life	635
Net assets acquired/purchase price	Ps. 730

The results of operation of Brisa for the period from the acquisition through December 31, 2009 were not material to our consolidated results of operations.

- ii) On July 17, 2008, Coca-Cola FEMSA acquired certain assets of Agua De Los Ángeles, which sells and distributes water within Mexico Valley, for Ps. 206, net of cash received. This acquisition was made so as to strengthen Coca-Cola FEMSA position in the local water business in Mexico. Based on the purchase price allocation, Coca-Cola FEMSA identified intangible assets with indefinite life of Ps. 18 consisting of distribution rights and intangible assets of definite life of Ps. 15 consisting of a non-compete right, amortizable in the following five years.
- iii) On May 31, 2008, Coca-Cola FEMSA completed in Brazil the franchise acquisition of Refrigerantes Minas Gerais for Ps. 3,633 net of cash received, assuming liabilities for Ps. 1,966 which includes an account payable to The Coca-Cola Company for Ps. 574, acquiring 100% of the voting shares. Coca-Cola FEMSA identified intangible assets with indefinite lives consisting of distribution rights based on the purchase price allocation of Ps. 2,242. This acquisition was made so as to strengthen Coca-Cola FEMSA's position in the local soft drinks business in Brazil.

The estimated fair value of the REMIL net assets acquired by Coca-Cola FEMSA is as follows:

Total current assets	Ps. 881
Total long-term assets	1,902
Distribution rights	2,242
Total current liabilities	1,152
Total long-term liabilities	814
Total liabilities	1,966
Net assets acquired	Ps. 3,059

As of December 31, 2008, Coca-Cola FEMSA has recognized a loss of Ps. 45 as part of the income statement of Coca-Cola FEMSA related to REMIL results after its acquisition.

- iv) On January 21, 2008, a reorganization of the Colombian operations occurred by way of a spin-off of the previous noncontrolling interest shareholders. The total amount paid to the noncontrolling interest shareholders for the buy-out was Ps. 213.

- v) On November 8, 2007, Administracion S.A.P.I. de C.V. ("Administracion SAPI"), a joint operation 50%-owned by Coca-Cola FEMSA and 50%-owned by The Coca-Cola Company, purchased 58,350,908 shares in Jugos Del Valle, S.A.B. de C.V. (currently Jugos Del Valle, S.A.P.I. de C.V.) ("Jugos Del Valle") to acquire a 100% equity interest in this company. Administracion SAPI paid Ps. 4,020 for Jugos Del Valle and assumed liabilities of Ps. 934.

Subsequent to the initial acquisition of Jugos Del Valle by Administracion SAPI, Coca-Cola FEMSA offered to sell 30% of its interest in Administracion SAPI to Coca-Cola bottlers in Mexico. During 2008, Coca-Cola FEMSA recorded investment in shares of 19.8% of the capital stock of Administracion SAPI which represents the Coca-Cola FEMSA's remaining investment after the sale of its 30.2% holding in Administracion SAPI to other Coca-Cola bottlers. After this, Administration SAPI merged with Jugos Del Valle, subsisting Jugos Del Valle. As of December 31, 2008 the transaction was completed.

- vi) On November 5, 2007, Coca-Cola FEMSA's Argentine subsidiary reached a binding agreement to acquire all outstanding shares of Complejo Industrial Can, S.A. ("CICAN") in a transaction valued at Ps. 51. CICAN manufactures packaging for various brands of soft drinks.

vii) Unaudited Pro Forma Financial Data:

The following unaudited consolidated pro forma financial data represents the Company's historical financial statements, adjusted to give effect to (i) the acquisition of REMIL mentioned in the preceding paragraphs; and (ii) certain accounting adjustments mainly related to depreciation of fixed assets of the acquired companies.

The results of operation of Brisa for both the years ended December 31, 2009 and 2008 were not material to the Company's consolidated results of operations for those periods. Accordingly, pro forma 2009 and 2008 financial data considering the acquisition of Brisa as of January 1, 2008 has not been presented herein.

The unaudited pro forma adjustments assume that the acquisitions were made at the beginning of the year immediately preceding the year of acquisition and are based upon available information and other assumptions that management considers reasonable. The pro forma financial information data does not purport to represent what the effect on the Company's consolidated operations would have been, had the transactions in fact occurred at the beginning of each year, nor are they intended to predict the Company's future results of operations.

	FEMSA Unaudited Pro Forma Consolidated Results for the Years Ended December 31,	
	2008	2007
Total revenues	Ps. 169,966	Ps. 152,195
Income before taxes	14,008	17,423
Net income	9,662	12,290

B) FEMSA Cerveza:

- i) In 2008, FEMSA Cerveza paid Ps. 54 to acquire third-party distributor operations. Based on the purchase price allocation, FEMSA Cerveza recognized Ps. 45 for beer distribution rights recorded as an intangible asset with indefinite life. As of December 31, 2009 and 2008, no goodwill has been recognized as a result of this acquisition. The results of operations of this acquired third-party distributor are not material to the Company's consolidated results of operations for purposes of presentation of pro forma information.

NOTE 6. ACCOUNTS RECEIVABLE.

	2009	2008
Trade	Ps. 9,506	Ps. 8,374
Allowance for doubtful accounts	(930)	(805)
The Coca-Cola Company	1,034	959
Notes receivable	566	476
MolsonCoors	368	255
Loans to employees	125	86
Travel advances to employees	111	65
Insurance claims	86	97
Guarantee deposits	76	60
Jugos Del Valle ⁽¹⁾	2	368
Other	788	866
	Ps. 11,732	Ps. 10,801

(1) Includes funds provided for the working capital of Jugos Del Valle.

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

	2009	2008	2007
Opening balance	Ps. 805	Ps. 657	Ps. 586
Provision for the year	363	387	195
Write-off of uncollectible accounts	(269)	(237)	(98)
Translation of foreign currency effect	31	(2)	(26)
Ending balance	Ps. 930	Ps. 805	Ps. 657

NOTE 7. INVENTORIES.

	2009	2008
Finished products	Ps. 6,963	Ps. 5,506
Raw materials	5,980	6,183
Spare parts	932	786
Advances to suppliers	685	317
Work in process	456	395
Allowance for obsolescence	(158)	(122)
	Ps. 14,858	Ps. 13,065

NOTE 8. OTHER CURRENT ASSETS.

	2009	2008
Long-lived assets available for sale	Ps. 373	Ps. —
Advertising and deferred promotional expenses	337	309
Restricted cash	303	525
Advances to services suppliers	253	73
Prepaid leases	131	124
Agreements with customers	118	136
Derivative financial instruments	81	1,591
Short-term licenses	32	23
Prepaid insurance	26	42
Other	112	237
	Ps. 1,766	Ps. 3,060

The advertising and deferred promotional expenses recorded in the consolidated income statements for the years ended December 31, 2009, 2008 and 2007 amounted to Ps. 6,587, Ps. 5,951 and Ps. 5,455, respectively.

NOTE 9. INVESTMENTS IN SHARES.

Company	% Ownership	2009	2008
Coca-Cola FEMSA:			
Jugos Del Valle, S.A. de C.V. ^{(1) (2)}	19.79%	Ps. 1,162	Ps. 1,101
Sucos del Valle Do Brasil, LTDA ^{(1) (2) (4)}	19.89%	325	—
Mais Industria de Alimentos, LTDA ^{(1) (2) (4)}	19.89%	289	—
Holdfab Participações, LTDA ^{(1) (2) (4)}	33.05%	—	359
Industria Envasadora de Querétaro, S.A. de C.V. ("IEQSA") ^{(1) (2)}	13.45%	78	112
Industria Mexicana de Reciclaje, S.A. de C.V. ^{(1) (2)}	35.00%	76	79
Estancia Hidromineral Itabirito ^{(1) (2)}	50.00%	76	—
Beta San Miguel, S.A. de C.V. ("Beta San Miguel") ⁽³⁾	2.54%	69	69
KSP Participações, S.A. ^{(1) (2)}	38.74%	88	62
Compañía de Servicios de Bebidas Refrescantes S.A. de C.V. ("Salesko") ^{(1) (2)}	26.00%	—	7
Other	Various	7	8
FEMSA Cerveza:			
Río Blanco Trust (waste water treatment plant) ^{(1) (2)}	19.14%	61	69
Affiliated companies of Kaiser ⁽³⁾	Various	25	19
Affiliated companies of FEMSA Cerveza ^{(1) (2)}	Various	39	14
Other ⁽³⁾	Various	12	13
Other investments	Various	37	53
		Ps. 2,344	Ps. 1,965

Accounting method:

(1) *Equity method. The date of the financial statements of the investees used to account for the equity method is the same as the used in the Company consolidated financial statements.*

(2) *The Company has significant influence, mainly due to its representation in the Board of Directors in those companies.*

(3) *Acquisition cost.*

(4) *Restructured its operations resulting in the spin-off of two separate companies: Sucos del Valle Do Brasil, LTDA and Mais Industria de Alimentos, LTDA.*

As of December 31, 2009, the Company indirectly owns 19.79% of Jugos Del Valle through its subsidiary Coca-Cola FEMSA. The principal activities of Jugos Del Valle is the production, distribution and marketing of fruit juices in Mexico and other countries. Coca-Cola FEMSA recognized other income of Ps. 4 regarding to its interest in Jugos Del Valle which is accounted for by equity method.

The following is some relevant financial information from Jugos Del Valle as of December 31, 2009 and 2008.

	2009	2008
Total assets	Ps. 6,961	Ps. 7,109
Total liabilities	1,092	1,551
Total stockholders' equity	5,869	5,558
	2009	2008
Total revenues	Ps. 5,052	Ps. 3,991
Income before taxes	59	265
Net income before discontinuing operations	7	124
Discontinuing operations	11	271
Net income	18	395

NOTE 10. PROPERTY, PLANT AND EQUIPMENT.

	2009	2008
Land	Ps. 8,417	Ps. 8,137
Buildings, machinery and equipment	98,713	90,800
Accumulated depreciation	(51,681)	(46,203)
Refrigeration equipment	12,296	10,512
Accumulated depreciation	(8,099)	(7,146)
Investment in fixed assets in progress (see Note 4 H)	4,523	4,296
Long-lived assets stated at net realizable value	538	730
Other long-lived assets	331	299
	Ps. 65,038	Ps. 61,425

As of December 31, 2009, the Company has identified long-term assets investments of Ps. 2,025 that are not ready for their intended use and met the definition of qualified assets for comprehensive financing result capitalization, which amounted to Ps. 145. As of December 31, 2008 and 2007, the capitalization of the comprehensive financing result did not have a significant impact on the consolidated financial statements.

The Company has identified certain long-lived assets that are not strategic to the current and future operations of the business and are not being used, comprised of land, buildings and equipment, in accordance with an approved program for the disposal of certain investments. Such long-lived assets, have been recorded at their estimated net realizable value without exceeding their acquisition cost, as follows:

	2009	2008
Coca-Cola FEMSA	Ps. 288	Ps. 394
FEMSA Cerveza	208	291
FEMSA and others subsidiaries	42	45
	Ps. 538	Ps. 730
Buildings	Ps. 182	Ps. 359
Land	174	237
Equipment	182	134
	Ps. 538	Ps. 730

As a result of selling certain long-lived assets, the Company recognized a loss of Ps. 26 and gains of Ps. 4 and Ps. 127 for the years ended December 31, 2009, 2008 and 2007, respectively.

Long-lived assets that are available for sale have been reclassified from property, plant and equipment to other current assets. As of December 31, 2009, long-lived assets available for sale amounted to Ps. 373 (see Note 8). In 2008, long-lived assets that were not strategic did not meet available for sale characteristics.

NOTE 11. INTANGIBLE ASSETS.

	2009	2008
Unamortized intangible assets:		
Coca-Cola FEMSA:		
Rights to produce and distribute Coca-Cola trademark products	Ps. 49,520	Ps. 46,892
FEMSA Cerveza:		
Trademarks and distribution rights	11,357	11,391
Goodwill	4,937	3,821
Kaiser trademarks	927	716
Other	—	287
Other unamortized intangible assets	787	499
	67,528	63,606
Amortized intangible assets:		
Systems in development costs	2,068	597
Technology costs and management systems	469	498
Alcohol licenses (see Note 4 J)	982	804
Start-up expenses (see Note 2 C)	—	253
Other	134	102
	3,653	2,254
Total intangible assets	Ps. 71,181	Ps. 65,860

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

	2009	2008
Beginning balance	Ps. 63,606	Ps. 59,110
Acquisitions	698	2,305
Impairment	(25)	—
Translation and restatement of foreign currency effect	3,249	2,191
Ending balance	Ps. 67,528	Ps. 63,606

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

	Investments		Amortization			Total
	Accumulated at the Beginning of the Year	Additions	Accumulated at the Beginning of the Year	For the Year		
2009						
Systems in development costs	Ps. 597	Ps. 1,471	Ps. —	Ps. —	Ps. 2,068	
Technology costs and management systems	2,230	389	(1,732)	(418)	469	
Alcohol licenses ⁽¹⁾	1,084	252	(280)	(74)	982	
2008						
Systems in development costs	Ps. —	Ps. 597	Ps. —	Ps. —	Ps. 597	
Technology costs and management systems	2,093	137	(1,504)	(228)	498	
Alcohol licenses ⁽¹⁾	719	365	(144)	(136)	804	
2007						
Technology costs and management systems	Ps. 1,892	Ps. 201	Ps. (1,159)	Ps. (345)	Ps. 589	
Alcohol licenses ⁽¹⁾	402	317	(66)	(78)	575	

(1) See Note 4 J.

Notes to the Consolidated Financial Statements

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

The estimated amortization for intangible assets of definite life is as follows:

	2010	2011	2012	2013	2014
Systems amortization	Ps. 473	Ps. 467	Ps. 442	Ps. 390	Ps. 377
Alcohol licenses	95	95	95	95	95
Others	17	17	17	17	17

NOTE 12. OTHER ASSETS.

	2009	2008
Leasehold improvements—net	Ps. 5,463	Ps. 4,930
Agreements with customers (see Note 4 I)	4,075	4,060
Brazilian amnesty rights	2,295	—
MolsonCoors	1,431	2,144
Derivative financial instruments	1,164	212
Guarantee Deposits	1,138	324
Long-term accounts receivable	760	549
Advertising and promotional expenses	628	293
Tax credits	—	185
Other	778	1,431
	Ps. 17,732	Ps. 14,128

Long-term accounts receivables are comprised of Ps. 737 and Ps. 23 of principal and interests and are expected to be collected as follows:

2010	Ps. 169
2011	215
2012	123
2013	84
2014 and thereafter	169
	Ps. 760

NOTE 13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES AND AFFILIATED COMPANIES.

On January 1, 2007, NIF C-13, "Related Parties," came into effect. This standard broadens the concept of "related parties" to include: a) the overall business in which the reporting entity participates; b) close family members of key officers; and c) any fund created in connection with a labor related compensation plan. Additionally, NIF C-13 requires that entities provide comparative disclosures in the notes to the financial statements.

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

Balances	2009	2008
Due from The Coca-Cola Company (see Note 4 L) ⁽¹⁾	Ps. 1,034	Ps. 959
Balance with BBVA Bancomer, S.A. de C.V. ⁽²⁾	4,665	799
Due from Promotora Mexicana de Embotelladores, S.A. de C.V. ⁽¹⁾	195	129
Other receivables ⁽¹⁾	104	480
Due to BBVA Bancomer, S.A. de C.V. ⁽³⁾	10,124	10,060
Due to The Coca-Cola Company ⁽⁴⁾	2,405	2,659
Due to Grupo Financiero Banamex, S.A. de C.V. ⁽³⁾	2,265	2,406
Due to British American Tobacco México ⁽⁴⁾	186	128
Other payables ⁽⁴⁾	345	233

(1) Recorded as part of total of receivable accounts.

(2) Recorded as part of cash and cash equivalents.

(3) Recorded as part of total bank loans.

(4) Recorded as part of total accounts payable.

Notes to the Consolidated Financial Statements

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

Transactions	2009	2008	2007
Income:			
Sales of cans and aluminum lids to Promotora Mexicana de Embotelladores, S.A. de C.V. ⁽¹⁾	Ps. 1,145	Ps. 1,081	Ps. 1,121
Logistic services to Grupo Industrial Saltillo, S.A. de C.V. ⁽²⁾	234	252	242
Sales of Grupo Inmobiliario San Agustín, S.A. shares to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. ⁽²⁾	64	66	37
Other revenues from related parties	147	408	902
Expenses:			
Purchase of concentrate from The Coca-Cola Company ⁽¹⁾	16,863	13,518	12,239
Purchase of baked goods and snacks from Grupo Bimbo, S.A.B. de C.V. ⁽²⁾	1,733	1,578	1,324
Purchase of cigarettes from British American Tobacco México ⁽²⁾	1,413	1,439	1,064
Advertisement expense paid to The Coca-Cola Company ⁽¹⁾	780	931	940
Purchase of juices to Jugos Del Valle, S.A. de C.V. ⁽¹⁾	1,044	863	—
Interest expense paid to BBVA Bancomer S.A. de C.V. ⁽²⁾	591	780	305
Purchase of sugar from Beta San Miguel ⁽¹⁾	713	687	845
Purchase of sugar, cans and aluminum lids from Promotora Mexicana de Embotelladores, S.A. de C.V. ⁽¹⁾	783	525	723
Purchase of canned products from IEQSA ⁽¹⁾ and CICAN ⁽³⁾	208	333	518
Advertising paid to Grupo Televisa, S.A.B. ⁽²⁾	247	253	178
Interest expense paid to Grupo Financiero Banamex, S.A. de C.V. ⁽²⁾	246	289	539
Interest expense paid to Deutsche Bank (Mexico) ⁽²⁾	—	85	—
Insurance premiums for policies with Grupo Nacional Provincial, S.A.B. ⁽²⁾	123	83	31
Donations to Instituto Tecnológico y de Estudios Superiores de Monterrey, A.C. ⁽²⁾	100	79	108
Purchase of plastic bottles from Embotelladora del Atlántico, S.A. (formerly Complejo Industrial Pet, S.A.) ⁽¹⁾	54	42	37
Donations to Difusión y Fomento Cultural, A.C. ⁽²⁾	—	29	32
Interest expense paid to The Coca-Cola Company ⁽¹⁾	25	27	29
Other expenses with related parties	99	43	3

(1) These companies are related parties of our subsidiary Coca-Cola FEMSA.

(2) One or more members of the board of directors or senior management are also members of the board of directors or senior management of the counterparties to these transactions.

(3) In 2007, CICAN is not considered to be a related party.

The benefits and aggregate compensation paid to executive officers and senior management of FEMSA and its subsidiaries were as follows:

	2009	2008	2007
Short- and long-term benefits paid	Ps. 1,494	Ps. 1,348	Ps. 1,290
Severance indemnities	53	11	17
Postretirement benefits (labor cost)	32	32	29

NOTE 14. BALANCES AND TRANSACTIONS IN FOREIGN CURRENCIES.

According to NIF B-15, assets, liabilities and transactions denominated in foreign currencies are those realized in a currency different than the recording, functional or reporting currency of each reporting unit. As of the end of and for the years ended December 31, 2009 and 2008, assets, liabilities and transactions denominated in foreign currencies, expressed in Mexican pesos are as follows:

	2009			2008		
	U.S. Dollars	Other Currencies	Total	U.S. Dollars	Other Currencies	Total
Assets						
Short-term	Ps. 5,407	Ps. 7	Ps. 5,414	Ps. 4,331	Ps. 153	Ps. 4,484
Long-term	1,218	—	1,218	315	—	315
Liabilities						
Short-term	3,492	70	3,562	7,970	52	8,022
Long-term	5,897	—	5,897	6,284	120	6,404
Transactions						
Revenues	Ps. 7,332	Ps. —	Ps. 7,332	Ps. 4,978	Ps. 933	Ps. 5,911
Expenses and investments:						
Purchases of raw materials	15,304	254	15,558	12,746	184	12,930
Interest expense	1,563	—	1,563	2,363	—	2,363
Assets acquisitions	883	387	1,270	1,343	715	2,058
Export expenses	1,709	9	1,718	849	—	849
Other	2,083	19	2,102	1,672	85	1,757
	Ps. 21,542	Ps. 669	Ps. 22,211	Ps. 18,973	Ps. 984	Ps. 19,957

As of March 3, 2010, the issuance date of these consolidated financial statements, the exchange rate published by "Banco de México" was Ps. 12.7454 Mexican pesos per one U.S. Dollar, and the foreign currency position was similar to that as of December 31, 2009.

NOTE 15. LABOR LIABILITIES.

The Company has various labor liabilities in connection with pension, seniority, post retirement medical and severance benefits. Benefits vary depending upon country.

In December 2007, FEMSA Cerveza approved a plan to allow certain qualifying personnel to early retire beginning in 2008. This plan consisted of the following: (i) allowed personnel with more than 55 years of age and 20 years of seniority, as of January 15, 2008, to take the early retirement, and (ii) to pay severance indemnities to some employees that do not meet certain characteristics defined by the Company. This plan is intended to improve the efficiency of FEMSA Cerveza's operating structure. The total financial impact of this plan was Ps. 236, of which Ps. 125 was recorded in the consolidated results of the Company of 2007, and Ps. 111 was recorded in the consolidated results as of December 31, 2008. Both amounts were included as part of other expenses (see Note 18).

A) Assumptions:

The Company annually evaluates the reasonableness of the assumptions used in its labor liabilities computations. Actuarial calculations for pension and retirement plans, seniority premiums, postretirement medical services and severance indemnity liabilities, as well as the cost for the period, were determined using the following long-term assumptions:

	Nominal Rates ⁽¹⁾		Real Rates ^{(2) (3)}	
	2009	2008	2009	2008
Annual discount rate	8.2%	8.2%	4.5%	4.5%
Salary increase	5.1%	5.1%	1.5%	1.5%
Return on assets	8.2%	11.3%	4.5%	4.5%

Measurement date: December 2009

(1) For non-inflationary economies.

(2) For inflationary economies.

(3) Assumptions used for 2007 actuarial calculations.

The basis for the determination of the long-term rate of return is supported by a historical analysis of average returns in real terms for the last 30 years of the Certificados de Tesorería del Gobierno Federal (Mexican Federal Government Treasury Certificates) for Mexican investments, treasury bonds of each country for other investments and the expected rates of long-term returns of the actual investments of the Company.

The annual growth rate for health care expenses is 5.1% in nominal terms, consistent with the historical average health care expense rate for the past 30 years. Such rate is expected to remain consistent for the foreseeable future.

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

	Pension and Retirement Plans	Seniority Premiums	Postretirement Medical Services	Severance Indemnities
2010	Ps. 460	Ps. 19	Ps. 26	Ps. 158
2011	384	18	26	134
2012	328	21	26	125
2013	352	23	27	120
2014	383	25	29	116
2015 to 2020	2,032	171	173	519

B) Balances of the Liabilities:

	2009	2008
Pension and retirement plans:		
Vested benefit obligation	Ps. 3,293	Ps. 3,122
Non-vested benefit obligation	2,165	1,890
Accumulated benefit obligation	5,458	5,012
Excess of projected benefit obligation over accumulated benefit obligation	1,144	1,201
Defined benefit obligation (projected benefit obligation)	6,602	6,213
Pension plan funds at fair value	(3,306)	(2,660)
Unfunded defined benefit obligation	3,296	3,553
Labor cost of past services ⁽¹⁾	(1,008)	(1,113)
Unrecognized actuarial loss, net	(181)	(554)
Total	Ps. 2,107	Ps. 1,886
Seniority premiums:		
Vested benefit obligation	Ps. 5	Ps. 8
Non-vested benefit obligation	184	165
Accumulated benefit obligation	189	173
Excess of projected benefit obligation over accumulated benefit obligation	104	96
Unfunded benefit obligation (unfunded projected benefit obligation)	293	269
Labor cost of past services ⁽¹⁾	(5)	(8)
Unrecognized actuarial loss, net	(5)	(13)
Total	Ps. 283	Ps. 248
Postretirement medical services:		
Vested benefit obligation	487	443
Non-vested benefit obligation	501	538
Defined benefit obligation	988	981
Medical services funds at fair value	(111)	(92)
Unfunded defined benefit obligation	877	889
Labor cost of past services ⁽¹⁾	(28)	(43)
Unrecognized actuarial loss, net	(376)	(482)
Total	Ps. 473	Ps. 364
Severance indemnities:		
Accumulated benefit obligation	633	596
Excess of projected benefit obligation over accumulated benefit obligation	115	133
Defined benefit obligation (projected benefit obligation)	748	729
Labor cost of past services ⁽¹⁾	(256)	(339)
Unrecognized actuarial loss, net	(1)	(2)
Total	491	388
Total labor liabilities	Ps. 3,354	Ps. 2,886

(1) Unrecognized net transition obligation and unrecognized prior service costs as were defined in Bulletin D-3 "Labor Liabilities."

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

C) Trust Assets:

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

	2009	2008
Fixed Return:		
Publicly traded securities	18%	16%
Bank instruments	10%	10%
Federal government instruments	43%	53%
Variable Return:		
Publicly traded	29%	21%
	100%	100%

The Company has a policy of maintaining at least 30% of the trust assets in Mexican Federal Government instruments. Objective portfolio guidelines have been established for the remaining percentage, and investment decisions are made to comply with those guidelines to the extent that market conditions and available funds allow.

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

	2009	2008
Debt:		
CEMEX, S.A.B. de C.V. ⁽¹⁾	Ps. 100	Ps. 57
BBVA Bancomer, S.A. de C.V. ⁽¹⁾	42	41
Sigma Alimentos, S.A. de C.V. ⁽¹⁾	29	29
Coca-Cola FEMSA	2	2
Deutsche Bank (Mexico) ⁽¹⁾	—	58
Capital:		
FEMSA	286	181
Grupo Televisa, S.A.B. ⁽¹⁾	71	—

(1) One or more members of the board of directors or senior management of FEMSA are members of the board of directors or senior management of this company.

The Company does not expect to make material contributions to plan assets during the following fiscal year.

D) Cost for the Year:

	2009	2008	2007
Pension and retirement plans:			
Labor cost	Ps. 247	Ps. 229	Ps. 210
Interest cost	504	437	235
Expected return on trust assets	(227)	(307)	(129)
Labor cost of past services ⁽¹⁾	105	105	102
Amendments to plan	—	90	120
Amortization of net actuarial loss	24	15	1
	653	569	539
Seniority premiums:			
Labor cost	37	33	30
Interest cost	21	20	10
Labor cost of past services ⁽¹⁾	2	2	2
Amendments to plan	—	6	1
Amortization of net actuarial loss	4	20	3
	64	81	46
Postretirement medical services:			
Labor cost	35	27	27
Interest cost	77	59	32
Expected return on trust assets	(8)	(10)	(6)
Labor cost of past services ⁽¹⁾	9	10	4
Amendments to plan	—	15	4
Amortization of net actuarial loss	22	13	13
	135	114	74
Severance indemnities:			
Labor cost	88	99	66
Interest cost	49	58	26
Labor cost of past services ⁽¹⁾	88	104	38
Amortization of net actuarial loss	66	178	—
	291	439	130
	Ps. 1,143	Ps. 1,203	Ps. 789

(1) Amortization of unrecognized net transition obligation and amortization of unrecognized prior service costs as were defined in Bulletin D-3 "Labor Liabilities."

E) Changes in the Balance of the Obligations:

	2009	2008
Pension and retirement plans:		
Initial balance	Ps. 6,213	Ps. 5,587
Labor cost	247	229
Interest cost	504	437
Amendments to plan	—	90
Actuarial loss	41	149
Benefits paid	(403)	(279)
Ending balance	6,602	6,213
Seniority premiums:		
Initial balance	269	254
Labor cost	37	33
Interest cost	21	20
Amendments to plan	—	6
Actuarial gain	(7)	(24)
Benefits paid	(27)	(20)
Ending balance	293	269
Postretirement medical services:		
Initial balance	981	746
Labor cost	35	27
Interest cost	77	59
Amendments to plan	—	15
Actuarial (gain) loss	(79)	187
Benefits paid	(26)	(53)
Ending balance	988	981
Severance indemnities:		
Initial balance	729	647
Labor cost	88	99
Interest cost	49	58
Actuarial loss	93	11
Benefits paid	(211)	(86)
Ending balance	748	729

F) Changes in the Balance of the Trust Assets:

	2009	2008
Initial balance	Ps. 2,752	Ps. 2,902
Actual return on trust assets	674	(148)
Benefits paid	(9)	(2)
Ending balance	3,417	2,752

G) Variation in Health Care Assumptions:

The following table presents the impact to the postretirement medical service obligations and the expenses recorded in the income statement with a variation of 1% in the assumed health care cost trend rates.

	Impact of Changes:	
	+1%	-1%
Postretirement medical services obligation	Ps. 144	Ps. (116)
Cost for the year	22	(17)

NOTE 16. BONUS PROGRAM.

The bonus program for executives is based on complying with certain goals established annually by management, which include quantitative and qualitative objectives and special projects.

The quantitative objectives represent approximately 50% of the bonus and are based on the Economic Value Added ("EVA") methodology. The objective established for the executives at each entity is based on a combination of the EVA per entity and the EVA generated by the Company, calculated at approximately 70% and 30%, respectively. The qualitative objectives and special projects represent the remaining 50% of the annual bonus and are based on the critical success factors established at the beginning of the year for each executive.

In addition, the Company provides a defined contribution plan of share compensation to certain key executives, consisting of an annual cash bonus to purchase FEMSA shares or options, based on the executive's responsibility in the organization, their business' EVA result achieved, and their individual performance. The acquired shares or options are deposited in a trust, and the executives may access them one year after they are vested at 20% per year. The 50% of Coca-Cola FEMSA's annual executive bonus is to be used to purchase FEMSA shares or options and the remaining 50% to purchase Coca-Cola FEMSA shares or options. As of December 31, 2009, 2008 and 2007, no options have been granted to employees under the plan.

The incentive plan target is expressed in months of salary, and the final amount payable is computed based on a percentage of compliance with the goals established every year. The bonuses are recorded in income from operations and are paid in cash the following year. During the years ended December 31, 2009, 2008 and 2007, the bonus expense recorded amounted to Ps. 1,524, Ps. 1,336 and Ps. 1,179, respectively.

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

As of December 31, 2009 and 2008, the number of shares held by the trust is as follows:

	Number of Shares			
	FEMSA UBD		KOF L	
	2009	2008	2009	2008
Beginning balance	9,752,206	7,431,459	2,471,075	1,663,746
Shares granted to executives	5,386,760	4,592,920	1,340,790	1,267,490
Shares released from trust to executives upon vesting	(3,070,478)	(2,241,393)	(742,249)	(447,159)
Forfeitures	(83,323)	(30,780)	(15,510)	(13,002)
Ending balance	11,985,165	9,752,206	3,054,106	2,471,075

The fair value the shares held by the trust as of the end of December 31, 2009 and 2008 was Ps. 1,014 and Ps 552, respectively, based on quoted market prices of those dates.

NOTE 17. BANK LOANS AND NOTES PAYABLE.

(in millions of Mexican pesos)	At December 31, ⁽¹⁾						2009	Fair Value	2008 ⁽¹⁾
	2010	2011	2012	2013	2014	2015 and Thereafter			
Short-term debt:									
Variable rate debt:									
Mexican pesos	1,400						1,400	1,400	3,820
Interest rate	8.2%						8.2%		11.6%
Argentine pesos	1,179						1,179	1,179	816
Interest rate	20.7%						20.7%		19.6%
Colombian pesos	496						496	496	798
Interest rate	4.9%						4.9%		15.2%
Venezuelan bolivares	741						741	741	365
Interest rate	18.1%						18.1%		22.2%
Total short-term debt	3,816						3,816	3,816	5,799
Long-term debt:									
Fixed rate debt:									
U.S. dollars	36	3					39	39	217
Interest rate	3.5%	3.8%					3.6%		4.8%
J.P. Morgan (Yankee Bond)									3,605
Interest rate									7.3%
Unit of Investments (UDIs)						2,964	2,964	2,964	2,692
Interest rate						4.2%	4.2%		4.2%
Mexican pesos	2,200	280	1,916				4,396	4,535	5,036
Interest rate	10.1%	12.3%	10.0%				10.2%		10.2%
Japanese yen									120
Interest rate									2.8%
Argentine pesos		69					69	69	—
Interest rate		20.5%					20.5%		—
Brazilian reais									1
Interest rate									10.7%
Subtotal	2,236	352	1,916	—	—	2,964	7,468	7,607	11,671
Variable rate debt:									
U.S. dollars	70	1,113	2,228	2,731	16		6,158	6,158	6,266
Interest rate	0.8%	0.7%	0.6%	0.5%	1.9%		0.6%		2.3%
Mexican pesos									
Inbursa	712		3,473		1,100	1,450	6,735	6,735	—
Interest rate	5.2%		8.2%		5.2%	5.1%	6.7%		
BBVA Bancomer	2,000	1,762					3,762	3,762	2,762
Interest rate	5.5%	5.2%					5.4%		9.0%
Crédito Bursátil TIE									
6 Years				3,500			3,500	3,399	3,500
Interest rate				4.9%			4.9%		8.7%
Santander Serfin		2,800	625	625			4,050	4,050	3,843
Interest rate		8.5%	5.1%	5.1%			7.4%		9.0%
ABN Crédito Bursátil		1,500	3,000				4,500	4,425	3,000
Interest rate		4.9%	4.9%				4.9%		8.7%
Others	19	5	898	1,085	292	1,375	3,674	3,674	6,112
Interest rate	4.6%	4.6%	5.1%	5.1%	5.1%	1.4%	3.7%		9.0%
Colombian pesos									905
Interest rate									15.4%
Subtotal	2,801	7,180	10,224	7,941	1,408	2,825	32,379	32,203	26,388
Total long-term debt	5,037	7,532	12,140	7,941	1,408	5,789	39,847	39,810	38,059
Current portion of long-term debt							(5,037)		(5,849)
							Ps. 34,810	Ps.	32,210

(1) All interest rates are weighted average annual rates.

Hedging Derivative Financial Instruments ⁽¹⁾	2010	2011	2012	2013	2014	2015 and Thereafter	2009	2008
<i>(notional amounts in millions of Mexican pesos)</i>								
Cross currency swaps:								
Units of investments to Mexican pesos and								
fixed to fixed rate:	—	—	—	—	—	2,500	2,500	3,595
Interest pay rate						9.6%	9.6%	10.0%
Interest receive rate						4.9%	4.9%	4.2%
U.S. dollars to Mexican pesos and								
variable to fixed rate:	—	846	846	423	—	—	2,115	2,115
Interest pay rate		8.1%	8.1%	8.1%			8.1%	8.1%
Interest receive rate		0.7%	0.7%	0.7%			0.7%	0.9%
U.S. dollars to Mexican pesos and variable								
to variable rate:	—	—	209	105	—	—	314	314
Interest pay rate			4.7%	4.7%			4.7%	8.5%
Interest receive rate			0.7%	0.7%			0.7%	3.6%
Japanese yen to Brazilian reais and								
fixed to variable rate:							—	72
Interest pay rate ⁽¹⁾								14.4%
Interest receive rate ⁽¹⁾								2.8%
Interest rate swap:								
Mexican pesos								
Variable to fixed rate:	862	1,762	2,215	3,885	—	—	8,724	9,045
Interest pay rate	9.5%	9.1%	8.1%	8.1%			8.4%	9.3%
Interest receive rate	5.0%	4.9%	4.9%	4.9%			4.9%	8.7%
U.S. dollars								
Variable to fixed rate:	—	—	653	979	—	50	1,682	—
Interest pay rate			3.8%	3.1%		8.6%	3.5%	—
Interest receive rate			0.5%	0.5%		5.1%	0.7%	—

(1) All interest rates are weighted average annual rates.

On December 4, 2007, the Company obtained the approval from the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or "CNBV") for the issuance of long-term domestic senior notes ("Certificados Bursátiles") in the amount of Ps. 10,000 (nominal amount) or its equivalent in investment units. As of December 31, 2009, the Company has issued the following domestic senior notes: i) on December 5, 2007, the Company issued domestic senior notes composed of Ps. 3,500 (nominal amount) with a maturity date on November 29, 2013 and a floating interest rate; ii) on December 5, 2007, the Company issued domestic senior notes in the amount of 637,587,000 investment units (Ps. 2,500 nominal amount), with a maturity date on November 24, 2017 and a fixed interest rate, iii) on May 26, 2008, the Company issued domestic senior notes composed of Ps. 1,500 (nominal amount), with a maturity date on May 23, 2011 and a floating interest rate, and iv) on March 9, 2007, the Company issued domestic senior notes composed of Ps. 3,000 (nominal amount), with a maturity date in 2012 and a floating interest rate.

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

NOTE 18. OTHER EXPENSES.

In 2007, FEMSA Cerveza approved a plan to allow certain qualifying personnel to early retire beginning in 2008. The financial impact of this plan for the years ended December 31, 2008 and 2007 was Ps. 111 and Ps. 125, respectively, and they were recorded in other expenses as a pension plan amendment (see Note 15).

Coca-Cola FEMSA recognized strategic restructuring programs in 2009 and 2008, which were recorded in other expenses in the consolidated income statement. Such costs consisted of severance payments updates associated with an ongoing benefit arrangement. For the years ended December 31, 2009 and 2008, the related payments were Ps. 113 and 169, respectively.

	2009	2008	2007
Employee profit sharing (see Note 4 R)	Ps. 1,179	Ps. 933	Ps. 553
Amnesty adoption effect	642	—	—
Vacation provision	563	—	—
Write-off of long-lived assets ⁽¹⁾	336	502	130
Severance payments associated with an ongoing benefit and amendment to pension plan	296	346	255
Loss on sales of fixed assets	221	185	68
Donations	156	138	149
Participation in affiliated and associated companies	(110)	13	(154)
Contingencies	(5)	30	439
Amortization of unrecognized actuarial loss, net (see Note 2 I)	—	198	—
Other	228	29	(143)
Total	Ps. 3,506	Ps. 2,374	Ps. 1,297

(1) Charges related to fixed assets retirement from ordinary operations and other long-lived assets.

NOTE 19. FAIR VALUE OF FINANCIAL INSTRUMENTS.

The Company uses a three level fair value hierarchy to prioritize the inputs used to measure fair value. The three levels of inputs are described as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3:** are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The Company measures the fair value of its financial assets and liabilities classified as Level 2 applying the income approach method, which estimates the fair value based on expected cash flows discounted to net present value. The following table summarizes financial assets and liabilities measured at fair value, as of December 31, 2009 and 2008:

	2009		2008	
	Level 1	Level 2	Level 1	Level 2
Cash equivalents	Ps. 10,365		Ps. 4,585	
Marketable securities	2,113			
Pension Plan trust assets	3,417		2,752	
Derivative financial instruments (asset)		Ps. 1,245		Ps. 1,804
Derivative financial instruments (liability)		2,154		4,466

The Company does not use inputs classified as Level 3 for fair value measurement.

The Company considered its credit risk for fair value measurements and estimates that the net effect on its derivative financial instruments is not material. As a result, the Company has not modified its valuation models as of December 31, 2009.

A) Total Debt:

The fair value of total debt is determined based on the discounted value of contractual cash flows, in which the discount rate is estimated using rates currently offered for debt of similar amounts and maturities. The fair value of notes is based on quoted market prices.

	2009	2008
Carrying value	Ps. 43,663	Ps. 43,858
Fair value	43,626	43,709

B) Interest Rate Swaps:

The Company uses interest rate swaps to offset the interest rate risk associated with its borrowings, pursuant to which it pays amounts based on a fixed rate and receives amounts based on a floating rate. These instruments are recognized in the consolidated balance sheet at their estimated fair value and have been designated as a cash flow hedge. The estimated fair value is based on formal technical models. Changes in fair value were recorded in cumulative other comprehensive income until such time as the hedged amount is recorded in earnings.

At December 31, 2009, the Company has the following outstanding interest rate swap agreements:

Maturity Date	Notional Amount	Fair Value Asset (Liability)
2010	Ps. 2,267	Ps. (72)
2011	2,413	(108)
2012	3,589	(170)
2013	7,836	(149)
2014	575	3
2015 to 2018	4,463	(12)

A portion of certain interest rate swaps do not meet the hedging criteria for accounting purposes; consequently, changes in the estimated fair value of the ineffective portion were recorded in the consolidated results as part of the comprehensive financing result.

The net effect of expired contracts that met hedging criteria is recognized as interest expense as part of the comprehensive financing result.

C) Forward Agreements to Purchase Foreign Currency:

The Company enters into forward agreements to reduce its exposure to the risk of exchange rate fluctuations between the Mexican peso and other currencies. These instruments are recognized in the consolidated balance sheet at their estimated fair value which is determined based on prevailing market exchange rates to end the contracts at the end of the period. The changes in the fair value are recorded in cumulative other comprehensive income. Net gain/loss on expired contracts is recognized as part of foreign exchange.

Net changes in the fair value of forward agreements that do not meet hedging criteria for accounting purposes are recorded in the consolidated results as part of the comprehensive financing result. The net effect of expired contracts that do not meet hedging criteria for accounting purposes is recognized as a market value gain/loss on the ineffective portion of derivative financial instruments.

D) Cross Currency Swaps:

The Company enters into cross currency swaps to reduce its exposure to risks of exchange rate and interest rate fluctuations associated with its borrowings denominated in U.S. dollars and other foreign currencies. These instruments are recognized in the consolidated balance sheet at their estimated fair value which is estimated based on formal technical models. Those contracts are designated as cash flow hedges; consequently, changes in the fair value were recorded as part of cumulative other comprehensive income.

Additionally, the Company has cross currency swaps designated as fair value hedges. The fair value changes related to those cross currency swaps were recorded as part of the ineffective portion of derivative financial instruments, net of changes related to the long-term liability.

Net changes in the fair value of current and expired cross currency swaps contracts that did not meet the hedging criteria for accounting purposes are recorded as a gain/loss in the market value on the ineffective portion of derivative financial instruments in the consolidated results as part of the comprehensive financing result.

E) Commodity Price Contracts:

The Company enters into various commodity price contracts to reduce its exposure to the risk of fluctuation in the costs of certain raw material. The fair value is estimated based on the market valuations to end of the contracts at the date of closing of the period. Changes in the fair value were recorded in cumulative other comprehensive income.

Net changes in the fair value of current and expired commodity price contracts that do not meet the hedging criteria for accounting purposes were recorded as a market value gain/loss on the ineffective portion of derivative financial instruments.

F) Embedded Derivative Financial Instruments:

The Company has determined that its leasing contracts denominated in U.S. dollars host embedded derivative financial instruments. The fair value is estimated based on formal technical models. Changes in the fair value were recorded in current earnings in the comprehensive financing result as market value on derivative financial instruments.

G) Notional Amounts and Fair Value of Derivative Instruments That Met Hedging Criteria:

	Notional Amount 2009	Fair Value	
		2009	2008
CASH FLOW HEDGE:			
Assets:			
Cross currency swaps	Ps. 2,115	Ps. 433 ⁽¹⁾	Ps. 578
Forward agreements		—	458
Interest rate swaps	575	3	16
Liabilities:			
Forward agreements	Ps. 1,195	Ps. 16 ⁽²⁾	
Interest rate swaps	20,568	511	Ps. 300
Commodity price contracts	5,199	977 ⁽³⁾	2,955
FAIR VALUE HEDGE:			
Assets:			
Cross currency swaps	Ps. 2,814	Ps. 561 ⁽⁴⁾	Ps. 333

(1) Expires in 2013.

(2) Expires in 2010.

(3) Maturity dates between 2010 and 2013.

(4) Maturity dates in 2013 and 2017.

H) Net Effects of Expired Contracts That Met Hedging Criteria:

Types of Derivatives	Impact in Income Statement Gain (Loss)	2009	2008	2007
Forward agreements	Foreign exchange	(1)	115	(15)
Cross currency swaps	Foreign exchange/interest expense	(135)	(178)	(37)
Commodity price contract	Cost of sales	(1,096)	17	(82)

I) Net Effect of Changes in Fair Value of Derivative Financial Instruments That Did Not Meet the Hedging Criteria for Accounting Purposes:

Types of Derivatives	Impact in Income Statement	2009	2008	2007
Interest rate swaps	Market value gain (loss) on	Ps. —	Ps. 24	Ps. 34
Commodity price contracts	ineffective portion of derivative	(165)	(474)	(43)
Forwards for purchase of foreign currency	financial instruments	(63)	(643)	22
Cross currency swaps		169	(224)	64

J) Net Effect of Changes in Fair Value of Other Derivative Financial Instruments That Did Not Meet the Hedging Criteria for Accounting Purposes:

Types of Derivatives	Impact in Income Statement	2009	2008	2007
Embedded derivative financial instruments	Market value gain (loss) on	Ps. 78	Ps. (138)	Ps. (9)
Others	ineffective portion of derivative financial instruments	6	(1)	1

NOTE 20. NONCONTROLLING INTEREST IN CONSOLIDATED SUBSIDIARIES.

An analysis of FEMSA's noncontrolling interest in its consolidated subsidiaries for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
Coca-Cola FEMSA	Ps. 32,918	Ps. 27,575
FEMSA Cerveza ⁽¹⁾	1,219	464
Other	55	35
	Ps. 34,192	Ps. 28,074

(1) Refers to the noncontrolling interest in Kaiser.

NOTE 21. STOCKHOLDERS' EQUITY.

At an ordinary stockholders' meeting of FEMSA held on March 29, 2007, a three-for-one stock split was approved for all of FEMSA's outstanding stock. Such split took effect on May 25, 2007. Subsequent to the stock split, the capital stock of FEMSA is comprised of 2,161,177,770 BD units and 1,417,048,500 B units.

As of December 31, 2009 and 2008, the capital stock of FEMSA was comprised of 17,891,131,350 common shares, without par value and with no foreign ownership restrictions. Fixed capital stock amounts to Ps. 300 (nominal value) and the variable capital may not exceed 10 times the minimum fixed capital stock amount.

The characteristics of the common shares are as follows:

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

The Series "D" shares are comprised as follows:

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

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

- "B units" each of which represents five series "B" shares and which are traded on the BMV;
- "BD units" each of which represents one series "B" share, two subseries "D-B" shares and two subseries "D-L" shares, and which are traded both on the BMV and the NYSE;

The Company's statutes addressed that in May 2008, shares structure established in 1998 would be modified, unlinking subseries "D-B" into "B" shares and unlinking subseries "D-L" into "L" shares.

At an ordinary stockholders' meeting of FEMSA held on April 22, 2008, it was approved to modify the Company's statutes in order to preserve the unitary shares structure of the Company established on May 1998, and also to maintain the shares structure established after May 11, 2008.

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As of December 31, 2009 and 2008, FEMSA's capital stock is comprised as follows:

	"B" Units	"BD" Units	Total
Units	1,417,048,500	2,161,177,770	3,578,226,270
Shares:			
Series "B"	7,085,242,500	2,161,177,770	9,246,420,270
Series "D"	—	8,644,711,080	8,644,711,080
Subseries "D-B"	—	4,322,355,540	4,322,355,540
Subseries "D-L"	—	4,322,355,540	4,322,355,540
Total shares	7,085,242,500	10,805,888,850	17,891,131,350

The net income of the Company is subject to the legal requirement that 5% thereof be transferred to a legal reserve until such reserve equals 20% of capital stock at nominal value. This reserve may not be distributed to stockholders during the existence of the Company, except as a stock dividend. As of December 31, 2009, this reserve in FEMSA amounted to Ps. 596 (nominal value).

Retained earnings and other reserves distributed as dividends, as well as the effects derived from capital reductions, are subject to income tax at the rate in effect at the date of distribution, except for restated stockholder contributions and distributions made from consolidated taxable income, denominated "Cuenta de Utilidad Fiscal Neta" ("CUFIN") or from reinvested consolidated taxable income, denominated "Cuenta de Utilidad Fiscal Neta Reinvertida" ("CUFINRE").

Dividends paid in excess of CUFIN and CUFINRE are subject to income tax at a grossed-up rate based on the current statutory rate. Since 2003, this tax may be credited against the income tax of the year in which the dividends are paid and in the following two years against the income tax and estimated tax payments. As of December 31, 2009, FEMSA's balances of CUFIN amounted to Ps. 55,604.

At the ordinary stockholders' meeting of FEMSA held on March 25, 2009, stockholders approved dividends of Ps. 0.08079 Mexican pesos (nominal value) per series "B" share and Ps. 0.10099 Mexican pesos (nominal value) per series "D" share that were paid in May 2009. Additionally, the stockholders approved a reserve for share repurchase of a maximum of Ps. 3,000.

As of December 31, 2009, the Company has not repurchased shares.

At an ordinary stockholders' meeting of Coca-Cola FEMSA held on March 23, 2009, the stockholders approved a dividend of Ps. 1,344 that was paid in April 2009. The corresponding payment to the noncontrolling interest was Ps. 622.

As of December 31, 2009, 2008 and 2007 the dividends paid by the Company and Coca-Cola FEMSA were as follows:

	2009	2008	2007
FEMSA	Ps. 1,620	Ps. 1,620	Ps. 1,525
Coca-Cola FEMSA (100% of dividend)	1,344	945	831

NOTE 22. NET CONTROLLING INTEREST INCOME PER SHARE.

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

The following presents the computed weighted average number of shares and the distribution of income per share series as of December 31, 2009, 2008 and 2007:

	Millions of Shares			
	Series "B"		Series "D"	
	Number	Weighted Average	Number	Weighted Average
Shares outstanding as of December 31, 2007, 2008 and 2009	9,246.42	9,246.42	8,644.71	8,644.71
Dividend rights	1.00		1.25	
Allocation of earnings	46.11%		53.89%	

NOTE 23. TAXES.**A) Income Tax:**

Income tax is computed on taxable income, which differs from net income for accounting purposes principally due to the treatment of the comprehensive financing result, the cost of labor liabilities, depreciation and other accounting provisions. A tax loss may be carried forward and applied against future taxable income.

	Domestic			Foreign		
	2009	2008	2007	2009	2008	2007
Income before income tax	12,966	12,290	12,621	7,093	2,335	4,762
Income tax:						
Current income tax	4,408	4,931	3,821	2,193	1,736	1,368
Deferred income tax	(910)	(2,433)	(332)	(1,783)	(27)	93

The difference to sum consolidated income before income tax is mainly dividends which are eliminated in the consolidated financial statement of the Company. The income tax paid in foreign countries is compensated with the consolidated income tax paid in Mexico for the period.

The statutory income tax rates applicable in the countries where the Company operates, the years in which tax loss carryforwards may be applied and the open periods that remain subject to examination as of December 31, 2009 are as follows:

	Statutory Tax Rate	Expiration (Years)	Open Period (Years)
Mexico	28%	10	5
Guatemala	31%	N/A	4
Nicaragua	30%	3	4
Costa Rica	30%	3	4
Panama	30%	5	3
Colombia	33%	8	2
Venezuela	34%	3	4
Brazil	34%	Indefinite	6
Argentina	35%	5	5

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

On January 1, 2010, the Mexican Tax Reform was effective. The most important changes are described as follows: the value added tax rate (IVA) increases from 15% to 16%, an increase on special tax on productions and services from 25% to 26.5%; and the statutory income tax rate changes from 28% in 2009 to 30% for 2010, 2011 and 2012, and then in 2013 and 2014 will decrease to 29% and 28%, respectively. Additionally, the Mexican tax reform requires the reversal of the deferred tax recognized from 1999 thru 2004, this reversal of deferred taxes will be achieved during the following five years (see Note 23 D and E).

In Colombia, tax losses may be carried forward eight years and they are limited to 25% of the taxable income of each year. Additionally, the statutory tax rate of Colombia decreases from 34% in 2007 to 33% in 2008 and 2009.

In Brazil, tax losses may be carried forward for an indefinite period but cannot be restated and are limited to 30% of the taxable income of each year.

In 2009, the Brazilian government offered an amnesty which grants a discount for fines and surcharges regarding tax contingencies and allows the application of 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 tax contingencies of Ps. 1,008 (see Note 24) and applied tax losses of Ps. 6,886 (see Note 23 F). After amnesty adoption, as of December 31, 2009, Brazilian tax contingencies and tax losses 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, previous controller of Kaiser agreed to indemnity 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 is recorded as part of accounts receivable and other assets.

B) Tax on Assets:

On January 1, 2007, the tax on assets rate was reduced from 1.8% to 1.25% and also the deduction of liabilities was eliminated in order to determine the tax to be paid. Effective in 2008, the tax on assets has disappeared in Mexico and it was replaced by the Business Flat Tax (Impuesto Empresarial a Tasa Única, "IETU;" see Note 23 C). The amounts of tax on assets paid corresponding to previous periods to the IETU introduction, can be creditable against the income tax generated during the period, only if the income tax is higher than the IETU generated in the same period, to the extent equivalent to 10% of the lesser tax on asset paid during 2007, 2006 or 2005.

The operations in Guatemala, Nicaragua, Colombia and Argentina are also subject to a minimum tax, which is based primarily on a percentage of assets. Any payments are recoverable in future years, under certain conditions.

C) Business Flat Tax ("IETU"):

Effective in 2008, the IETU came into effect in Mexico and replaced the Tax on Assets. IETU functions are similar to an alternative minimum corporate income tax, except that amounts paid cannot be creditable against future income tax payments. The payable tax will be the higher between the IETU or the income tax liability computed under the Mexican income tax law. The IETU applies to individuals and corporations, including permanent establishments of foreign entities in Mexico, at a rate of 17.5% beginning in 2010. The rates for 2008 and 2009 will be 16.5% and 17.0%, respectively. The IETU is calculated under a cash-flow basis, whereby the tax base is determined by reducing cash proceeds with certain deductions and credits. In the case of income derived from export sales, where cash on the receivable has not been collected within 12 months, income will be deemed received at the end of this 12-month period. In addition, as opposed to Mexican income tax which allows for fiscal consolidation, companies that incur IETU are required to file their returns on an individual basis.

Based on its financial projections for purposes of its Mexican tax returns, the Company expects to pay corporate income tax in the future and does not expect to pay IETU. As such, the enactment of IETU did not impact the Company's consolidated financial position or results of operations.

D) Deferred Income Tax:

Effective January 2008, in accordance with NIF B-10, "Effects of Inflation," in Mexico the application of inflationary accounting is suspended. However, for taxes purposes, the balance of fixed assets is restated through the application of National Consumer Price Index (NCPI) of each country. For this reason, the difference between accounting and taxable values will increase, generating a deferred tax.

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The impact to deferred income tax generated by liabilities (assets) temporary differences are as follows:

Deferred Income Taxes	2009	2008
Allowance for doubtful accounts	Ps. (179)	Ps. (137)
Inventories	22	137
Prepaid expenses	79	137
Property, plant and equipment	4,515	5,366
Investments in shares	(38)	(24)
Intangibles and other assets	(1,687)	(2,640)
Amortized intangible assets	(107)	48
Unamortized intangible assets	2,233	1,714
Labor liabilities	(863)	(735)
Derivative financial instruments	(359)	(832)
Loss contingencies	(805)	(658)
Temporary non-deductible provision	(1,667)	(1,170)
Employee profit sharing payable	(185)	(171)
Recoverable tax on assets	(21)	(252)
Tax loss carryforwards	(4,217)	(4,457)
Valuation allowance for tax loss carryforwards and non-recoverable tax on assets	2,033	3,675
Other reserves	964	1,152
Deferred income taxes, net	(282)	1,153
Deferred income taxes asset	1,254	1,247
Deferred income taxes liability	Ps. 972	Ps. 2,400

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

	2009	2008
Initial balance	Ps. 1,153	Ps. 2,320
Loss on monetary position	87	48
Tax provision for the year	(495)	(2,460)
Application of tax loss carryforwards due to amnesty adoption	2,066	—
Reversal of tax loss carryforward allowance	(2,066)	—
Change in the statutory rate	(131)	—
Effect in tax loss carryforwards ⁽¹⁾	(1,874)	—
Deferred tax cancellation due to change in accounting principle	(71)	—
Effects in stockholders' equity:		
Additional labor liability over unrecognized net transition obligation	—	160
Derivative financial instruments	415	(722)
Cumulative translation adjustment	592	1,709
Restatement effect of beginning balances	42	98
Ending balance	Ps. (282)	Ps. 1,153

(1) Effect due to 2010 Mexican tax reform, which was reclassified to other current liabilities and other liabilities according to its maturity.

E) Provision for the Year:

	2009	2008	2007
Current income taxes	Ps. 6,600	Ps. 6,667	Ps. 4,965
Tax on assets	—	—	224
Deferred income tax	(495)	(2,460)	(239)
Change in the statutory rate ⁽¹⁾	(131)	—	—
Tax law benefit due to amnesty	(2,066)	—	—
Income taxes and tax on assets	Ps. 3,908	Ps. 4,207	Ps. 4,950

(1) Effect due to 2010 Mexican tax reform.

F) Tax Loss Carryforwards and Recoverable Tax on Assets:

The subsidiaries in Mexico, Panama, Colombia, Venezuela and Brazil have tax loss carryforwards and/or recoverable tax on assets. The tax effect of tax loss carryforwards, net of consolidation future benefits and their years of expiration are as follows:

Year	Tax Loss Carryforwards		Recoverable Tax on Assets	
	Ps.		Ps.	
2010	241		6	
2011	163		1	
2012	144		9	
2013	257		32	
2014	452		59	
2015	1,515		10	
2016	734		15	
2017 and thereafter	3,351		131	
No expiration (Brazil, see Note 23 A)	6,617		—	
	13,474		263	
Tax losses used in consolidation	(6,105)		—	
	Ps. 7,369		Ps. 263	

The changes in the balance of tax loss carryforwards and recoverable tax on assets are as follows:

	2009	2008
Initial balance	Ps. 13,734	Ps. 11,095
Provision	574	4,060
Usage of tax losses ⁽¹⁾	(9,693)	(890)
Translation effect of beginning balances	3,017	(531)
Ending balance	Ps. 7,632	Ps. 13,734

(1) In 2009, includes Ps. 6,886 regarding usage of tax loss carryforwards due to amnesty adoption.

Due to the uncertainty related to the realization of Ps. 5,979, regarding certain tax loss carryforwards a valuation allowance has been recorded to reduce the deferred income tax asset associated with such carryforwards. The changes in the valuation allowance are as follows:

	2009	2008
Initial balance	Ps. 3,675	Ps. 3,360
Provision	—	690
Usage of tax losses carryforwards ⁽¹⁾	(2,668)	(213)
Translation of foreign currency effect	1,026	(162)
Ending balance	Ps. 2,033	Ps. 3,675

(1) In 2009, includes Ps. 2,066 regarding usage of tax loss carryforwards due to amnesty adoption.

G) Reconciliation of Mexican Statutory Income Tax Rate to Consolidated Effective Income Tax Rate:

	2009	2008	2007
Mexican statutory income tax rate	28.0 %	28.0 %	28.0 %
Difference between book and tax inflationary effects	(1.4)%	(2.2)%	(1.1)%
Non-deductible expenses	2.1 %	3.3 %	1.7 %
Difference between statutory income tax rates	2.1 %	2.5 %	1.7 %
Non-taxable income	(0.6)%	(1.0)%	—
Effect of amnesty adoption	(10.9)%	—	—
Other	1.3 %	0.6 %	(1.0)%
	20.6 %	31.2 %	29.3 %

NOTE 24. OTHER LIABILITIES, CONTINGENCIES AND COMMITMENTS.**A) Other Current Liabilities:**

	2009	2008
Derivative financial instruments	Ps. 868	Ps. 3,089
Sundry creditors	2,271	2,035
Current portion of other long-term liabilities	464	342
Others	4	30
Total	Ps. 3,607	Ps. 5,496

B) Other Liabilities:

	2009	2008
Contingencies	Ps. 3,052	Ps. 5,050
Liability due to amnesty adoption	2,389	—
Taxes payable	1,428	—
Derivative financial instruments	1,286	1,377
Current portion of other long-term liabilities	(464)	(342)
Others	2,668	2,775
Total	Ps. 10,359	Ps. 8,860

C) Contingencies Recorded in the Balance Sheet:

The Company has various loss contingencies, and reserves have been recorded in those cases where the Company believes an unfavorable resolution is probable. Most of these loss contingencies were recorded as a result of recent business acquisitions. The following table presents the nature and amount of the loss contingencies recorded as of December 31, 2009:

	Total
Indirect taxes	Ps. 1,164
Labor	1,672
Legal	216
Total	Ps. 3,052

D) Changes in the Balance of Contingencies Recorded:

	2009	2008
Initial balance	Ps. 5,050	Ps. 5,230
Provision ⁽¹⁾	524	948
Penalties and other charges	258	50
Reversal of provision	(470)	(690)
Payments	(390)	(572)
Amnesty adoption	(1,008)	—
Transfer to other liabilities	(2,389)	—
Translation of foreign currency of beginning balance	1,477	84
Ending balance	Ps. 3,052	Ps. 5,050

(1) Includes REMIL acquisition in 2008 of Ps. 607, recorded through purchase accounting.

E) Unsettled Lawsuits:

The Company has entered into legal proceedings with its labor unions, tax authorities and other parties that primarily involve Coca-Cola FEMSA and FEMSA Cerveza. These proceedings have resulted in the ordinary course of business and are common to the industry in which the Company operates. The aggregate amount being claimed against the Company resulting from such proceedings as of December 31, 2009 is Ps. 11,922. Such contingencies were classified by legal counsel as less than probable but more than remote of being settled against the Company. However, the Company believes that the ultimate resolution of such legal proceedings will not have a material adverse effect on its consolidated financial position or result of operations.

In recent years in its Mexican, Costa Rican and Brazilian territories, Coca-Cola FEMSA and FEMSA Cerveza have been requested to present certain information regarding possible monopolistic practices. These requests are commonly generated in the ordinary course of business in the beer and soft drink industries where those subsidiaries operate. The Company does not expect any significant liability to arise from these contingencies.

F) Collateralized Contingencies:

As is customary in Brazil, the Company has been requested by the tax authorities to collateralize tax contingencies currently in litigation amounting to Ps. 3,251 by pledging fixed assets and entering into available lines of credit which cover such contingencies.

G) Commitments:

As of December 31, 2009, the Company has operating lease commitments for the rental of production machinery and equipment, distribution equipment, computer equipment and land for FEMSA Comercio's operations.

The contractual maturities of the lease commitments by currency, expressed in Mexican pesos as of December 31, 2009, are as follows:

	Mexican Pesos	U.S. Dollars	Other
2010	Ps. 1,607	Ps. 178	Ps. 151
2011	1,504	45	145
2012	1,428	44	114
2013	1,335	26	35
2014	1,209	1	8
2015 and thereafter	6,182	—	16
Total	Ps. 13,265	Ps. 294	Ps. 469

Rental expense charged to operations amounted to approximately Ps. 2,469, Ps. 2,080 and Ps. 1,737 for the years ended December 31, 2009, 2008 and 2007, respectively.

NOTE 25. INFORMATION BY SEGMENT.

Analytical information by segment is presented considering the business units and geographic areas in which the Company operates and is presented according to the information used for decision making of the administration.

The information presented is based on the Company's accounting policies. Intercompany operations are eliminated and presented within the consolidation adjustment column.

A) By Business Unit:

	Coca-Cola FEMSA	FEMSA Cerveza	FEMSA Comercio	Other ⁽¹⁾	Consolidation Adjustments	Consolidated
2009						
Total revenue	Ps. 102,767	Ps. 46,336	Ps. 53,549	Ps. 12,302	Ps. (17,921)	Ps. 197,033
Intercompany revenue	1,287	6,878	12	9,744	(17,921)	—
Income from operations	15,835	5,894	4,457	826	—	27,012
Depreciation ⁽²⁾	3,473	1,927	819	76	—	6,295
Amortization	307	2,005	461	21	—	2,794
Other non-cash charges ^{(3) (4)}	368	2,082	49	217	—	2,716
Impairment of long-lived assets	124	207	—	5	—	336
Interest expense	1,895	2,477	954	2,158	(2,287)	5,197
Interest income	286	322	27	2,217	(2,287)	565
Income taxes	4,043	(1,296)	544	617	—	3,908
Capital expenditures	6,282	4,111	2,668	117	—	13,178
Net cash flows provided by operating activities	16,840	7,468	3,028	3,459	—	30,795
Net cash flows used in investment activities	(8,900)	(3,537)	(2,634)	(763)	—	(15,834)
Net cash flow (used in) provided by financing activities	(6,029)	(3,139)	(346)	1,803	—	(7,711)
Long-term assets	87,022	58,557	12,378	22,491	(18,737)	161,711
Total assets	110,661	72,029	19,693	31,475	(22,767)	211,091

2008

Total revenue	Ps. 82,976	Ps. 42,385	Ps. 47,146	Ps. 9,401	Ps. (13,886)	Ps. 168,022
Intercompany revenue	1,021	5,534	10	7,321	(13,886)	—
Income from operations	13,695	5,394	3,077	518	—	22,684
Depreciation ⁽²⁾	3,036	1,748	663	136	(75)	5,508
Amortization	240	1,871	422	27	—	2,560
Other non-cash charges ^{(3) (4)}	145	634	46	105	—	930
Impairment of long-lived assets	371	124	—	7	—	502
Interest expense	2,207	2,318	665	1,061	(1,321)	4,930
Interest income	433	477	27	982	(1,321)	598
Income taxes	2,486	1,037	351	333	—	4,207
Capital expenditures	4,802	6,418	2,720	294	—	14,234
Net cash flows provided by operating activities	12,139	4,831	2,121	3,973	—	23,064
Net cash flows used in investment activities	(7,299)	(5,928)	(2,718)	(2,115)	—	(18,060)
Net cash flow (used in) provided by financing activities	(5,261)	480	870	(2,249)	—	(6,160)
Long-term assets	79,966	54,393	10,888	10,188	(7,077)	148,358
Total assets	97,958	67,854	17,185	15,599	(11,251)	187,345

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Equivalent to non-cash operating expenses as presented in the Consolidated Statement of Cash Flows.

(4) Includes the cost for the period related to labor liabilities (see Note 15 D) and participation in associated companies.

2007	Coca-Cola	FEMSA	FEMSA	Other ⁽¹⁾	Consolidation	Consolidated
	FEMSA	Cerveza	Comercio		Adjustments	
Total revenue	Ps. 69,251	Ps. 39,566	Ps. 42,103	Ps. 8,124	Ps. (11,488)	Ps. 147,556
Intercompany revenue	864	4,256	16	6,352	(11,488)	—
Income from operations	11,486	5,497	2,320	433	—	19,736
Depreciation ⁽²⁾	2,637	1,637	543	113	—	4,930
Amortization	241	1,786	399	39	—	2,465
Other non-cash charges ⁽⁴⁾	173	426	28	90	—	717
Impairment of long-lived assets	—	91	—	2	—	93
Interest expense	2,178	2,196	453	1,031	(1,137)	4,721
Interest income	613	342	38	913	(1,137)	769
Income taxes	3,336	888	377	349	—	4,950
Capital expenditures	3,682	5,373	2,112	90	—	11,257

(1) Includes other companies (see Note 1) and corporate.

(2) Includes bottle breakage.

(3) Equivalent to non-cash operating expenses as presented in the Consolidated Statement of Cash Flows.

(4) Includes the cost for the period related to labor liabilities (see Note 15 D) and participation in associated companies.

B) By Geographic Area:

The Company's operations are grouped in the following divisions: (i) Mexico division; (ii) Latincentro division, which is comprised of the territories operated in Central America and Colombia; (iii) Venezuela; and (iv) Mercosur division, which is comprised of the territories operated in Brazil and Argentina.

Venezuela operates in an economy with exchange controls, as a result, Bulletin B-5 "Information by Segments" does not allow its integration into another geographical segment.

2009	Total Revenue	Capital Expenditures	Long-Lived Assets	Total Assets
Mexico	Ps. 126,872	Ps. 9,429	Ps. 111,793	Ps. 149,674
Latincentro ⁽¹⁾	16,211	1,269	17,992	20,636
Venezuela	22,448	1,248	8,945	13,746
Mercosur ⁽²⁾	32,362	1,232	22,938	33,848
Consolidation adjustments	(860)	—	—	(6,813)
Consolidated	Ps. 197,033	Ps. 13,178	Ps. 161,668	Ps. 211,091

2008

Mexico	Ps. 114,640	Ps. 11,032	Ps. 104,630	Ps. 138,660
Latincentro ⁽¹⁾	12,853	1,209	16,833	21,284
Venezuela	15,217	715	6,883	9,817
Mercosur ⁽²⁾	25,755	1,278	19,821	27,815
Consolidation adjustments	(443)	—	—	(10,392)
Consolidated	Ps. 168,022	Ps. 14,234	Ps. 148,167	Ps. 187,184

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

(2) Includes Brazil and Argentina.

2007	Total Revenue	Capital Expenditures	Long-Lived Assets	Total Assets
Mexico	Ps. 106,136	Ps. 9,137	Ps. 98,302	Ps. 120,965
Latincentro ⁽¹⁾	11,901	971	13,739	18,268
Venezuela	9,792	(9)	4,155	6,364
Mercosur ⁽²⁾	20,127	1,158	16,114	24,149
Consolidation adjustments	(400)	—	—	(3,951)
Consolidated	Ps. 147,556	Ps. 11,257	Ps. 132,310	Ps. 165,795

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

(2) Includes Brazil and Argentina.

NOTE 26. DIFFERENCES BETWEEN MEXICAN FRS AND U.S. GAAP.

The United States Financial Accounting Standards Board ("FASB") released the FASB *Accounting Standards Codification*, or Codification for short, on January 15, 2008 and it became effective in July 2009. At that time all previous U.S. GAAP reference sources became obsolete. The Codification organizes all of U.S. GAAP pronouncements under approximately 90 accounting topic areas. The objective of this project was to arrive at a single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC. Included in this note and, 27 and 28 are references to certain U.S. GAAP Codifications ("ASC") that were adopted in 2009 and certain ASC's that have yet to be adopted by the Company.

As discussed in Note 2, the consolidated financial statements of the Company are prepared in accordance with Mexican FRS, which differs in certain significant respects from U.S. GAAP. A reconciliation of the reported net income, stockholders' equity and comprehensive income to U.S. GAAP is presented in Note 27. It should be noted that this reconciliation to U.S. GAAP as of December 31, 2007, does not include the reversal of the restatement of the financial statements required by NIF Bulletin B-10, "Recognition of the Effects of Inflation in the Financial Information" of Mexican FRS; as of December 31, 2009 and 2008, the Company adopted NIF B-10 "Effects of Inflation" which does not require it to restate the financial information if the company operates in a noninflationary economic environment (see Note 4 A).

The application of NIF B-10 represents a comprehensive measure of the effects of price-level changes in inflationary economic environments.

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

A) Consolidation of Coca-Cola FEMSA:

In 2008 and 2007, under Mexican FRS, the Company consolidated Coca-Cola FEMSA in accordance with the requirements of prior Bulletin B-8 "Consolidated and Combined Financial Statements and Valuation of Long-Term Investments in Shares." In 2009, Mexican FRS NIF B-8 "Consolidated and Combined Financial Statements" came into effect as described in Note 2 E.

For U.S. GAAP purposes, the existence of substantive participating rights held by the Coca-Cola Company (noncontrolling interest), as addressed in the shareholder agreement, did not allow FEMSA to consolidate Coca-Cola FEMSA in its financial statements. Therefore, FEMSA's investment in Coca-Cola FEMSA has been accounted for by the equity method in FEMSA's consolidated financial statement under US GAAP for the years ended December 31, 2009, 2008 and 2007.

On February 1, 2010, FEMSA and the Coca-Cola Company signed an amendment to the shareholder agreement. This amendment allowed FEMSA to consolidate Coca-Cola FEMSA for Mexican FRS purposes during 2009, because the Company has controlled operating and financial policies. Additionally, in this amendment, substantive rights held by The Coca-Cola Company were amended and became protective rights. For U.S. GAAP, this amendment to the shareholder agreement would impact financial information of FEMSA in 2010 as of that date, and the Company would recognize a business combination without transfer of consideration in order to comply with ASC 805.

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Beginning in 2008, as a result of discontinuing inflationary accounting for Coca-Cola FEMSA's subsidiaries that operate in non-inflationary economic environments, the financial statements are no longer considered to be presented in a reporting currency that comprehensively includes the effects of price level changes; therefore, the effects of inflation generated beginning in 2008 result in a difference to be reconciled for U.S. GAAP purposes. The equity method recorded by FEMSA as of December 31, 2008 considers this difference.

As of December 31, 2009 and 2008, fair value of FEMSA's investment in Coca-Cola FEMSA represented by 992,078,519 equivalent to 53.7% for both years, of its outstanding shares amount to Ps. 85,135 and Ps. 59,706 based on quoted market prices of those dates.

Summarized consolidated balance sheets and income statements under U.S. GAAP are presented as follows as of December 31:

Consolidated Balance Sheets	2009	2008	
Current assets	Ps. 24,676	Ps.	18,685
Property, plant and equipment	29,835		28,045
Other assets	53,918		51,243
Total assets	Ps. 108,429	Ps.	97,973
Current liabilities	Ps. 23,460	Ps.	21,345
Long-term liabilities	18,932		20,160
Total liabilities	42,392		41,505
Total stockholders' equity:			
Controlling interest	63,704		54,761
Noncontrolling interest in consolidated subsidiaries	2,333		1,707
Total stockholders' equity	Ps. 66,037	Ps.	56,468
Total liabilities and stockholders' equity	Ps. 108,429	Ps.	97,973

Consolidated Income Statements	2009	2008	2007
Total revenues	Ps. 100,393	Ps. 81,099	Ps. 69,131
Income from operations	14,215	12,042	10,734
Income before income taxes	12,237	7,685	10,215
Income taxes	3,525	1,987	3,272
Consolidated net income	8,853	5,802	6,953
Less: Net income attributable to the noncontrolling interest	(446)	(231)	(188)
Net income attributable to the controlling interest	8,407	5,571	6,765
Other comprehensive income	2,506	717	1,946
Comprehensive income	Ps. 10,913	Ps. 6,288	Ps. 8,711

B) Restatement of Prior Year Financial Statements:

Under U.S. GAAP, the Company applies the regulations of the Securities and Exchange Commission of the United States of America ("SEC"), which allows it to not reconcile 2007 financial statements which were previously restated in constant units of the reporting currency. Beginning on January 1, 2008, in accordance with NIF B-10, the Company discontinued inflationary accounting for subsidiaries that operate in non-inflationary economic environments. As a result prior years financial information and all other adjustments for U.S. GAAP purposes, were restated and translated as of December 31, 2007, which is the date of the last recognition of inflation effects. The cumulative effect of previously realized and unrealized results of holding non-monetary assets (RETANM) of previous periods was reclassified to retained earnings as described in Note 2 G. This reclassification does not result in a difference to reconcile for U.S. GAAP purposes since those amounts are ultimately recognized in the Company's financial statements.

As disclosed in Note 4 A, the three year cumulative inflation rate for Venezuela was 87.5% for the period 2006 through 2008. The three year cumulative inflation rate for Venezuela was 101.6% as of December 31, 2009. Accordingly, the Company anticipates that Venezuela will be accounted for as a hyper-inflationary economy for U.S. GAAP purposes beginning January 1, 2010.

C) Classification Differences:

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

- As explained in Note 4 D, under Mexican FRS, advances to suppliers are recorded as inventories. Under U.S. GAAP advances to suppliers are classified as prepaid expenses;
- Impairment of goodwill and other long-lived assets, the gains or losses on the disposition of fixed assets, all severance payments associated with an ongoing benefit and amendments to pension plans, financial expenses from labor liabilities and employee profit sharing are recorded as part of operating income under U.S. GAAP; and
- Under Mexican FRS, deferred taxes are classified as non-current, while under U.S. GAAP they are based on the classification of the related asset or liability or their estimated reversal date when not associated with an asset or liability.

D) Start-Up Expenses:

As explained in Note 4 J, through 2008, under Mexican FRS, start-up expenses were capitalized and amortized using the straight-line method in accordance with the terms of the lease contracts at the start of operations. Under U.S. GAAP, these expenses must be recorded in the income statement as incurred. Beginning on January 1, 2009, the Company adopted NIF C-8, which establishes that start-up expenses have to be recorded in the income statement as incurred (see Note 4 J). As a result, since 2009, there are no differences between Mexican FRS and U.S. GAAP.

E) Intangible Assets:

According to Mexican FRS, in 2003 the amortization of goodwill was discontinued. For U.S. GAAP purposes, since 2002 goodwill and indefinite-lived intangible assets are no longer subject to amortization.

As a result of the change in U.S. GAAP, the Company performed an initial impairment test as of January 1, 2002 and found no impairment. Subsequent impairment tests are performed annually by the Company, if events or changes in circumstances between annual tests indicate that the asset might be impaired.

F) Restatement of Imported Equipment:

Through December 2007, the Company restated imported machinery and equipment applying the inflation rate and the exchange rate of the currency of the country of origin; then the Company translated those amounts into Mexican pesos using the period-end exchange rate.

As explained in Note 2 G, on January 1, 2008, the Company adopted NIF B-10, "Effects of Inflation" which establishes that imported machinery and equipment are recorded using the exchange rate of the acquisition date. Subholding Companies that operate in inflationary economic environments have to restate those assets by applying the inflation rate of the country where the asset is acquired. The change in this methodology did not impact significantly the consolidated financial position of the Company (see Note 2 G).

Under U.S. GAAP, the Company applies SEC regulations referred to above; as such amounts are not reconciled during the preparation of U.S. GAAP financial information for 2007 figures.

G) Capitalization of the Comprehensive Financing Result:

According to Mexican FRS D-6, the Company has capitalized the comprehensive financing result generated by borrowing obtained to finance investment projects.

According to U.S. GAAP, if interest expense is incurred during the construction of qualifying assets and the net effect is material, capitalization is required for all assets that require a period of time to get them ready for their intended use. The net effect of interest expenses incurred to bring qualifying assets to the condition for their intended use was Ps. 90, Ps. 56 and Ps. 55 for the years ended on December 31, 2009, 2008 and 2007, respectively.

A reconciling item is included for the difference in capitalized comprehensive financing result policies and their amortization under Mexican FRS and capitalized interest expense policies under US GAAP.

H) Fair Value Measurements:

In 2008, the Company adopted a FASB pronouncement that establishes a framework for measuring fair value providing a consistent definition that focuses on exit price and prioritizes the use of market based inputs over company specific inputs. This pronouncement requires companies to consider their own nonperformance risk when measuring liabilities carried at fair value, including derivative financial instruments. The effective date of this standard for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a recurring basis (at least annually) started on January 1, 2009.

Additionally, U.S. GAAP establishes a three level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs are full described in Note 19. The Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date as shown in Note 19.

The Company is exposed to counterparty credit risk on all derivative financial instruments. Because the amounts are recorded at fair value, the full amount of the Company's exposure is the carrying value of these instruments. Credit risk is monitored through established approval procedures, which consider grading counterparties periodically in order to offset the net effect of counterparty's credit risk. As a result the Company only enters into derivative transactions with well-established financial institutions; and estimates that such risk is minimal.

U.S. GAAP allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument by instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, the unrealized gains and losses for that instrument shall be reported in earnings at each subsequent reporting date. The Company did not elect to adopt fair value option to any of its outstanding instruments; therefore, it did not have any impact on its consolidated financial statements.

In accordance with the financial instruments disclosures, it is necessary to disclose, in the body of the financial statements or in the notes, the fair value of financial instruments for which it is practicable to estimate it, and the method(s) used to estimate the fair value. The Company estimates that carrying amounts of cash and cash equivalents, accounts receivable, interest payable, suppliers, accounts payable and other current liabilities approximate their fair value due to their short maturity.

Additionally as explained in Note 16, the Company has a bonus program in which the cost of the equity instruments is measured based on the fair value of the instruments on the date they are granted.

I) Deferred Income Taxes, Employee Profit Sharing and Uncertain Tax Positions:

The calculation of deferred income taxes and employee profit sharing for U.S. GAAP purposes differs from Mexican FRS as follows:

- Under Mexican FRS, inflation effects on the deferred taxes balance generated by monetary items are recognized in the income statement as part of the result of monetary position of inflationary economic environments. Under U.S. GAAP, the deferred taxes balance is classified as a non-monetary item. As a result, the consolidated income statement differs with respect to the presentation of the gain or loss on monetary position and deferred income taxes provision;
- Under Mexican FRS, deferred employee profit sharing is calculated using the asset and liability method, which is the method used to compute deferred income taxes under U.S. GAAP. Employee profit sharing is deductible for purposes of Mexican taxes from profit. This deduction reduces the payments of income taxes in subsequent years. For Mexican FRS purposes, the Company did not record deferred employee profit sharing, since is not expected to materialize in the future; and
- The differences in restatement of imported machinery and equipment, capitalization of interest expenses, employee benefits, deferred employee profit sharing and through 2008 start-up expenses, explained in Note 26 D, F, G and J, generate a difference when calculating the deferred income taxes under U.S. GAAP compared to that presented under Mexican FRS (see Note 23 D).

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

Reconciliation of Deferred Income Taxes, Net	2009	2008	
Deferred income taxes under Mexican FRS	Ps. (282)	Ps.	1,153
Deferred income taxes of Coca-Cola FEMSA	(1,640)		(434)
U.S. GAAP adjustments:			
Start-up expenses	—		(62)
Restatement of imported equipment	(29)		(23)
Capitalization of interest expense	62		74
Tax deduction for deferred employee profit sharing	(38)		(60)
Employee benefits	(478)		(611)
Total U.S. GAAP adjustments	(483)		(682)
Deferred income taxes, net, under U.S. GAAP	Ps. (2,405)	Ps.	37

Changes in the Balance of Deferred Income Taxes	2009	2008	2007
Initial balance	Ps. 37	Ps. 1,604	Ps. 1,808
Provision for the year	(795)	(1,243)	(539)
Financial instruments	319	(622)	124
Application of tax loss carryforwards due to amnesty adoption	2,066	—	—
Reversal of tax loss carryforward allowance	(2,066)	—	—
Effect in tax loss carryforwards	(1,874)	—	—
Change in the statutory income tax rate	(90)	—	—
Cumulative translation adjustment	(134)	437	178
Unrecognized labor liabilities	132	(139)	33
Ending balance	Ps. (2,405)	Ps. 37	Ps. 1,604

Reconciliation of Deferred Employee Profit Sharing	2009	2008	
Deferred employee profit sharing under Mexican FRS	Ps. —	Ps.	—
U.S. GAAP adjustments:			
Allowance for doubtful accounts	(5)		(7)
Inventories	22		58
Prepaid expenses	6		6
Property, plant and equipment	211		278
Deferred charges	(34)		(18)
Intangible assets	32		54
Capitalization of interest expense	2		2
Start-up expenses	—		(19)
Derivative financial instruments	15		18
Labor liabilities	(405)		(410)
Other reserves	(187)		(113)
Total U.S. GAAP adjustments	(343)		(151)
Valuation allowance	477		365
Deferred employee profit sharing under U.S. GAAP	Ps. 134	Ps.	214

Changes in the Balance of Deferred Employee Profit Sharing	2009	2008	2007
Initial balance	Ps. 214	Ps. 483	Ps. 650
Provision for the year	(234)	(576)	(180)
Labor liabilities	42	(58)	13
Valuation allowance	112	365	—
Ending balance	Ps. 134	Ps. 214	Ps. 483

The deferred employee profit sharing includes total reduction by a valuation allowance since the Company estimates it will not be realized.

According to U.S. GAAP, the Company is required to recognize in its financial statements the impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement. Any difference between the tax position taken in the tax return and the tax position recognized in the financial statements using the criteria above results in the recognition of a liability in the financial statements for the unrecognized benefit. Similarly, if a tax position fails to meet the more-likely-than-not recognition threshold, the benefit taken in tax return will also result in the recognition of a liability in the financial statements for the full amount of the unrecognized benefit. According to Mexican FRS, the Company is required to record tax contingencies in its financial statements when such liabilities are probable in nature and estimable. However, this difference between Mexican FRS and U.S. GAAP is not material to the Company's consolidated financial statements during any of the periods presented herein, and has thus not resulted in a reconciling item.

J) Employee Benefits:

On January 1, 2008, the Company adopted NIF D-3 "Employee Benefits" according to Mexican FRS. This standard eliminates the recognition of the additional labor liability resulting from the difference between actual benefits and the net projected liabilities, establishes a maximum of five years to amortize the beginning balance of past labor costs of pension plans and severance indemnities and requires recording actuarial gains or losses of severance indemnities as part of the income from operations during the period when those are incurred. The adoption of NIF D-3 generates a difference in the unamortized net transition obligation and in the amortization expense of pension plans and severance indemnities. Under U.S. GAAP the Company is required to fully recognize as an asset or liability from the overfunded or underfunded status of defined pension and other postretirement benefit plans.

The adoption of NIF B-10 for Mexican FRS, required the application of real rates for inflationary economic environments and nominal rates for non-inflationary economic environments in the actuarial calculations. The Company uses the same criteria for interest rates for both U.S. GAAP and Mexican FRS.

The reconciliation of the pension cost for the year and related labor liabilities is as follows:

Cost for the Year	2009	2008	2007
Net cost recorded under Mexican FRS	Ps. 1,143	Ps. 1,203	Ps. 789
Net cost of Coca-Cola FEMSA	(313)	(451)	(176)
U.S. GAAP adjustments:			
Amortization of unrecognized transition obligation	(53)	(55)	(8)
Amortization of prior service cost	5	4	8
Amortization of net actuarial loss	2	(36)	—
Total U.S. GAAP adjustment	(46)	(87)	—
Cost for the year under U.S. GAAP	Ps. 784	Ps. 665	Ps. 613

Labor Liabilities	2009	2008
Employee benefits under Mexican FRS	Ps. 3,354	Ps. 2,886
Employee benefits of Coca-Cola FEMSA	(1,088)	(936)
U.S. GAAP adjustments:		
Unrecognized net transition obligation	287	403
Unrecognized prior service	696	740
Unrecognized net actuarial loss	730	1,040
U.S. GAAP adjustments to stockholders' equity	1,713	2,183
Labor liabilities under U.S. GAAP	Ps. 3,979	Ps. 4,133

Estimates of the unrecognized items expected to be recognized as components of net periodic pension cost during 2010 are shown in the table below:

	Pension and Retirement Plans	Seniority Premiums	Postretirement Medical Services
Actuarial net loss and prior service cost recognized in cumulative other comprehensive income during the year	Ps. (169)	Ps. (4)	Ps. (90)
Actuarial net loss and prior service cost recognized as a component of net periodic cost	71	3	22
Net transition liability recognized as a component of net periodic cost	49	2	9
Actuarial net loss, prior service cost and transition liability included in cumulative other comprehensive income	1,097	3	404
Estimate to be recognized as a component of net periodic cost over the following fiscal year:			
Transition asset/(obligation)	48	1	(5)
Prior service credit/(cost)	49	—	—
Actuarial gain/(loss)	13	(1)	(16)

K) Kaiser and Coca-Cola FEMSA Noncontrolling Interest Acquisitions:

In 2006, FEMSA Cerveza indirectly acquired an additional equity interest in Kaiser. According to Mexican FRS Bulletin B-7, "Business Acquisitions," this is a transaction between existing shareholders that does not impact the net assets of the Company, and the payment in excess of the book value of the shares acquired is recorded in stockholders' equity as a reduction of additional paid-in capital. U.S. GAAP, in effect at that time, establishes that purchases of noncontrolling interest represent a "step acquisition" that must be recorded utilizing the purchase method, whereby the purchase price is allocated to the proportionate fair value of assets and liabilities acquired. The Company did not recognize any goodwill as a result of this acquisition.

Additionally, on August 31, 2007, FEMSA Cerveza sold 16.88% of Kaiser's outstanding shares to Heineken NV. The excess of the price paid over the book value was recorded directly in stockholders' equity in accordance with Mexican FRS. Under U.S. GAAP, a parent shall account for the deconsolidation of a subsidiary by recognizing a gain or loss in net income attributable to the parent.

In 2006, FEMSA indirectly acquired an additional 8.02% of the total outstanding equity of Coca-Cola FEMSA. According to Mexican FRS Bulletin B-7, this is a transaction between shareholders that does not impact the net assets of the Company, and the payment in excess of the book value of the shares acquired is recorded in stockholders' equity as a reduction of additional paid-in capital. Under U.S. GAAP, purchases of noncontrolling interest represent a "step acquisition" that must be accounted for under the purchase method, whereby the purchase price is allocated to the proportionate fair value of assets and liabilities acquired. The difference between the fair value and the price paid for the 8.02% of Coca-Cola FEMSA equity is presented as part of investment in Coca-Cola FEMSA shares in the consolidated balance sheet under U.S. GAAP. The Company did not recognize any goodwill as a result of this acquisition. For the periods presented, the acquisition of the additional 8.02% interest in Coca-Cola FEMSA did not affect the consolidation analysis discussed above because substantive participating rights of The Coca-Cola Company's were not affected.

L) Noncontrolling Interests:

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

Beginning as of January 1, 2009, under U.S. GAAP, this item must be presented as separate component within consolidated stockholders' equity in the consolidated balance sheet. Additionally, consolidated net income shall be adjusted to include the net income attributed to the noncontrolling interest. And consolidated comprehensive income shall be adjusted to include the net income attributed to the noncontrolling interest. Because these changes are to be applied retrospectively, they eliminate the differences between MFRS and U.S. GAAP in the presentation of the noncontrolling interest in the consolidated financial statements.

M) FEMSA's Noncontrolling Interest Acquisition:

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

In accordance with U.S. GAAP, the acquisition of noncontrolling interest must be accounted for under the purchase method, using the market value of shares received by FEMSA in the exchange offer to determine the cost of the acquisition of such noncontrolling interest and the related goodwill. Under U.S. GAAP, the direct out-of-pocket costs identified with the purchase of noncontrolling interest are treated as additional goodwill.

Additionally, accounting standards related to goodwill, require the allocation of all goodwill to the related reporting units to the operating segment or component that will generate the related cash flows. The allocation of the goodwill generated by the previously mentioned acquisition of noncontrolling interest was as follows:

FEMSA Cerveza	Ps. 10,600
Coca-Cola FEMSA	4,753
FEMSA Comercio	1,085
Other	918
	Ps. 17,356

N) Statement of Cash Flows:

In 2008, the Company adopted NIF B-2 "Statement of Cash Flows" which is similar to cash flows standards for U.S. GAAP except for the presentation of restricted cash, different presentation of interest costs, and certain other supplemental disclosures.

In 2007, the Company presented a consolidated statement of changes in financial position in accordance with Mexican FRS Bulletin B-12, "Statement of Changes in Financial Position," which differs from the cash flows presentation. Bulletin B-12 identified the generation and application of resources by the differences between beginning and ending balance sheet items presented in constant Mexican pesos. Bulletin B-12 also required that monetary and foreign exchange gains and losses be treated as cash items for the determination of resources generated by operating activities.

O) Financial Information Under U.S. GAAP:

Consolidated Balance Sheets	2009	2008
ASSETS		
Current Assets:		
Cash and cash equivalents	Ps. 7,896	Ps. 2,919
Accounts receivable	6,688	6,219
Inventories	9,416	8,531
Recoverable taxes	1,755	2,009
Other current assets	1,987	2,472
Total current assets	27,742	22,150
Investments in shares:		
Coca-Cola FEMSA	35,730	30,996
Other investments	175	169
Property, plant and equipment	36,386	35,340
Deferred taxes	2,116	—
Intangible assets	37,547	35,438
Bottles and cases	2,248	2,111
Other assets	16,056	13,015
TOTAL ASSETS	Ps. 158,000	Ps. 139,219
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Bank loans	Ps. 1,400	Ps. 3,821
Interest payable	109	109
Current maturities of long-term debt	2,026	1,936
Suppliers	11,257	9,594
Deferred taxes liability and employee profit sharing	77	235
Taxes payable	2,961	2,167
Accounts payable, accrued expenses and other liabilities	5,709	5,792
Total current liabilities	23,539	23,654
Long-Term Liabilities:		
Bank loans and notes payable	24,119	19,557
Deferred taxes liability	738	504
Labor liabilities	3,979	4,133
Other liabilities	6,183	5,329
Total long-term liabilities	35,019	29,523
Total Liabilities	58,558	53,177
Equity:		
Controlling interest	98,168	85,537
Noncontrolling interest	1,274	505
Total Equity	99,442	86,042
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	Ps. 158,000	Ps. 139,219

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Consolidated Statements of Income and Comprehensive Income ⁽¹⁾	2009	2008	2007
Net sales	Ps. 102,039	Ps. 90,941	Ps. 82,887
Other operating revenues	863	709	475
Total revenues	102,902	91,650	83,362
Cost of sales	59,841	53,419	48,831
Gross profit	43,061	38,231	34,531
Operating expenses:			
Administrative	7,949	6,113	5,944
Selling	26,451	24,237	20,920
	34,400	30,350	26,864
Income from operations	8,661	7,881	7,667
Comprehensive financing result:			
Interest expense	(3,013)	(2,561)	(2,417)
Interest income	310	181	158
Foreign exchange (loss) gain, net	(26)	(217)	592
(Loss) gain on monetary position, net	(1)	(1)	664
Market value gain (loss) on ineffective portion of derivative financial instruments	73	(24)	(2)
	(2,657)	(2,622)	(1,005)
Other (expenses) income, net	52	241	(124)
Income before taxes	6,056	5,500	6,538
Taxes	(127)	1,787	1,610
Income before participation in affiliated companies	6,183	3,713	4,928
Participation in affiliated companies:			
Coca-Cola FEMSA	4,516	2,994	3,635
Other associates companies	(14)	(108)	26
	4,502	2,886	3,661
Net income	Ps. 10,685	Ps. 6,599	Ps. 8,589
Less: Net income attributable to the noncontrolling interest	(783)	253	(32)
Net income attributable to controlling interest	Ps. 9,902	Ps. 6,852	Ps. 8,557
Other comprehensive income	4,335	(2,241)	2,149
Comprehensive income	Ps. 14,237	Ps. 4,611	Ps. 10,706
Less: Comprehensive income attributable to the noncontrolling interest	7	(60)	(500)
Comprehensive income attributable to controlling interest	Ps. 14,244	Ps. 4,551	Ps. 10,206
Net income per share:			
Per Series "B" share	Ps. 0.49	Ps. 0.34	Ps. 0.43
Per Series "D" share	0.62	0.43	0.53

(1) Expressed in millions of historical Mexican pesos, except for the data share information.

Notes to the Consolidated Financial Statements

FOMENTO ECONOMICO MEXICANO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Cash Flows	2009	2008	2007
Cash flows from operating activities:			
Net income	Ps. 10,685	Ps. 6,599	Ps. 8,589
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Inflation effect	(1)	(1)	(722)
Depreciation	2,786	2,439	2,114
Amortization	2,487	2,469	2,347
Participation in affiliated companies	(4,502)	(2,886)	(3,661)
Deferred taxes	(3,185)	(1,819)	(719)
Other non-cash charges	5,353	2,779	750
Changes in operating assets and liabilities net of business acquisitions:			
Working capital investment	(1,640)	(914)	(340)
Dividends received from Coca-Cola FEMSA	722	508	435
Payable (recoverable) taxes, net	673	(354)	(422)
Interest payable	(370)	(276)	27
Labor obligations	(512)	(453)	(171)
Derivative financial instruments	(428)	(1,208)	(273)
Net cash flows provided by operating activities	12,068	6,883	7,954
Cash flows from investing activities:			
Acquisitions by FEMSA Cerveza, net of cash acquired	—	(27)	356
Sale of property, plant and equipment	422	48	150
Acquisition of property, plant and equipment	(3,709)	(5,612)	(3,825)
Other assets	(3,660)	(3,432)	(3,885)
Bottles and cases	(70)	(260)	(245)
Investment in shares	—	—	9
Net cash flows used in investing activities	(7,017)	(9,283)	(7,440)
Cash flows from financing activities:			
Bank loans obtained	16,775	18,465	6,660
Bank loans paid	(14,541)	(14,662)	(6,368)
Dividends declared and paid	(1,620)	(1,620)	(1,486)
Restricted cash activity for the year	(88)	(134)	—
Other financing activities	(4)	257	30
Net cash flows provided (used in) by financing activities	522	2,306	(1,164)
Effect of exchange rate changes on cash and cash equivalents	(596)	99	101
Cash and cash equivalents:			
Net increase (decrease)	4,977	5	(549)
Initial balance	2,919	2,914	3,463
Ending balance	Ps. 7,896	Ps. 2,919	Ps. 2,914
Supplemental cash flow information:			
Interest paid	Ps. (2,586)	Ps. (2,268)	Ps. (2,310)
Income taxes and tax on assets paid	(3,737)	(2,849)	(2,699)

The effect of exchange rate changes on cash balances held in foreign currencies were Ps. 596 as losses as of December 31, 2009, and gains of Ps. 99 and Ps. 101 as of December 31, 2008 and 2007, respectively.

Consolidated Statements of Changes in Stockholders' Equity	2009		2008
Stockholders' equity at the beginning of the year	Ps. 86,042	Ps.	83,304
Dividends declared and paid	(1,620)		(1,620)
Noncontrolling interest variation	(7)		60
Other comprehensive income (loss):			
Derivative financial instruments	993		(1,649)
Labor liabilities	285		(306)
Cumulative translation adjustment	3,810		493
Reversal of inflation effect	(746)		(839)
Other comprehensive income	4,342		(2,301)
Net income	10,685		6,599
Stockholders' equity at the end of the year	Ps. 99,442	Ps.	86,042

NOTE 27. RECONCILIATION OF MEXICAN FRS TO U.S. GAAP.**A) Reconciliation of Net Income:**

	2009		2008		2007
Net consolidated income under Mexican FRS	Ps. 15,082	Ps.	9,278	Ps.	11,936
Noncontrolling interest under Mexican FRS of Coca-Cola FEMSA	(4,390)		(2,819)		(3,392)
U.S. GAAP adjustments:					
Participation in Coca-Cola FEMSA (Note 26 A)	(63)		(14)		(77)
Start-up expenses (Note 26 D)	—		(16)		(10)
Restatement of imported equipment (Note 26 F)	(12)		(14)		(31)
Capitalization of interest expense (Note 26 G)	(49)		(49)		(48)
Deferred income taxes (Note 26 I)	(9)		(65)		18
Deferred employee profit sharing (Note 26 I)	80		211		180
Employee benefits (Note 26 J)	46		87		—
Sale of noncontrolling interest (Note 26 K)	—		—		13
Total U.S. GAAP adjustments	(7)		140		45
Net income under U.S. GAAP	Ps. 10,685	Ps.	6,599	Ps.	8,589

Under U.S. GAAP, as of December 31, 2007, the monetary position effect of the income statement adjustments of inflationary economic environments is included in each adjustment, except for the capitalization of interest expenses as well as pension plan liabilities, which are non-monetary.

B) Reconciliation of Stockholders' Equity:

	2009		2008
Total stockholders' equity under Mexican FRS	Ps. 115,829	Ps.	96,895
Noncontrolling interest under Mexican FRS of Coca-Cola FEMSA	(32,918)		(27,576)
U.S. GAAP adjustments:			
Participation in Coca-Cola FEMSA (Note 26 A)	(1,328)		(618)
Start-up expenses (Note 26 D)	—		(223)
Intangible assets and goodwill (Note 26 E)	54		54
Restatement of imported equipment (Note 26 F)	134		152
Capitalization of interest expense (Note 26 G)	215		264
Deferred income taxes (Note 26 I)	483		682
Deferred employee profit sharing (Note 26 I)	(134)		(214)
Employee benefits (Note 26 J)	(1,713)		(2,183)
Acquisition of Coca-Cola FEMSA noncontrolling interest (Note 26 K)	1,609		1,609
Acquisitions by FEMSA Cerveza (Note 26 K)	66		55
FEMSA's noncontrolling interest acquisition (Note 26 M)	17,145		17,145
Total U.S. GAAP adjustments	16,531		16,723
Stockholders' equity under U.S. GAAP	Ps. 99,442	Ps.	86,042

C) Reconciliation of Comprehensive Income:

	2009		2008		2007
Consolidated comprehensive income under Mexican FRS	Ps. 21,355	Ps.	9,085	Ps.	12,978
Comprehensive income of the noncontrolling interest under Mexican FRS	(6,734)		(3,515)		(3,561)
Comprehensive income of the controlling interest under Mexican FRS	14,621		5,570		9,417
U.S. GAAP adjustments:					
Net income (Note 27 A)	(7)		144		46
Cumulative translation adjustment	91		(18)		—
Reversal of inflation effect	(746)		(839)		—
Result of holding non-monetary assets	—		—		420
Additional labor liability in excess of unamortized transition obligation	285		(306)		323
Comprehensive income under U.S. GAAP	Ps. 14,244	Ps.	4,551	Ps.	10,206

NOTE 28. FUTURE IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IN EFFECT.**A) Mexican FRS:**

The following accounting standards have been issued under Mexican FRS, the application of which is required as indicated. The Company is in the process of assessing the effect of adopting the new standards.

- NIF B-5, "Financial Information by Segment"

NIF B-5 "Financial Information by Segment" 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 in the 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 comparable purposes.

- **NIF B-9, “Interim Financial Reporting”**

NIF B-9 “Interim Financial Reporting” prescribes the content to be included in a complete or condensed set of financial statements for an interim period. In accordance with the standard, the complete set of financial statements shall include: a) a statement of financial position as of the end of the period, b) an income statement for the period, c) a statement of changes in equity for the period, d) a statement of cash flows for the period, and e) notes providing the relevant accounting policies and other explanatory notes. Condensed financial statements shall include: a) condensed statement of financial position, b) condensed income statement, c) condensed statement of changes in equity, d) 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 a comparative form.

- **NIF C-1, “Cash and Cash Equivalents”**

NIF C-1 “Cash and Cash Equivalents” establishes that cash shall be measured at nominal value, and cash equivalents shall be measured at acquisition cost for initial recognition. Subsequently, cash equivalents should be measured according to its 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 will be presented in the first line of assets (including restricted cash). NIF C-1 is effective beginning on January 1, 2010 and shall be applied retrospectively.

B) U.S. GAAP:

The following accounting standards have been issued under U.S. GAAP, the application of which is required as indicated. The Company is in the process of assessing the effect of adopting these new standards.

- **“Accounting for Transfer for Financial Assets—Amendment No. 2009-16” or SFAS No. 166, ASC 860**

This statement provides for the removal of the concept of a qualifying special-purpose entity and removes the exception from applying variable interest entity accounting to qualifying special-purpose entities. It also clarifies that one objective is to determine whether a transferor and all of the entities included in the transferor’s financial statements being presented have surrendered control over transferred financial assets. SFAS No. 166 modifies the financial-component approach previously used, and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. SFAS No. 166 also defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. It requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor’s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are also required by this statement. This statement must be applied as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009. This statement must be applied to transfers occurring on or after the effective date.

- **“Amendments to SFAS Interpretation FIN 46R,” or SFAS No. 167, ASC 810**

The objective of issuing SFAS No. 167 is to improve financial reporting by enterprises involved with variable interest entities. The Board undertook this project to address (1) the effects on certain provisions of ASC 810 “Consolidation” as a result of the elimination of the qualifying special-purpose entity concept in SFAS No. 166, and (2) 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. 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 SFAS No. 166. SFAS No. 167 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.

- **“Employer’s Disclosures about Postretirement Benefit Plan Assets,” ASC 715 (formerly FSP FAS 132(R)-1)**

This amends previous GAAP to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. Enhanced disclosures about investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk are also required. The disclosures about plan assets required shall be provided for fiscal years ending after December 15, 2009. Upon initial application, the provisions are not required for earlier periods that are presented for comparative purposes. Earlier application of the provisions is permitted.

NOTE 29. SUBSEQUENT EVENTS.

- On January 8, 2010, Venezuelan President Hugo Chavez announced the devaluation of the bolivar (BsF). The official exchange rate of 2.150 bolivars to the dollar, in effect since 2005, was replaced effective January 11, 2010, with a dual-rate regime. The two-tiered official exchange rates will be (1) "the essentials rate" at BsF 2.60 per dollar and (2) "the non-essentials rate" at BsF 4.30 per dollar. The president announced that importers of essential items such as food, medicine, heavy machinery, family remittances, and public sector imports including school supply, science, and technology needs, will be able to buy dollars at a rate of 2.60 bolivars, and a higher rate of 4.30 bolivars will apply to most of the economy, including the automobile, chemicals, rubber and plastics, appliances, textile, electronics, tobacco, beverages, and telecommunications sectors, as well as to repatriation of dividends by foreign investors. The Company is assessing the impact of this event in its consolidated financial information for Mexican FRS and U.S. GAAP purposes.
- On January 11, 2010, the Company announced that it will exchange its FEMSA Cerveza business unit for a 20% economic interest in Heineken, one of the world's leading brewers. Under the terms of the agreement, the Company will 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. The total transaction is valued at approximately US\$7.355 billion, based on closing prices of Heineken Holding N.V. and Heineken N.V. shares as of January 8, 2010, including the assumed debt of US\$2.1 billion. This transaction is subject to customary regulatory approvals, as well as the approval by the Company, Heineken N.V. and Heineken Holding N.V. shareholders, and if approved is expected to be completed during the first half of 2010.
- On February 5, 2010, Coca-Cola FEMSA closed the issuance of US\$500 million in Senior Notes, bearing interest at a fixed rate of 4.625%, which are due February 15, 2020. Coca-Cola FEMSA has entered into a registration rights agreement with the holders of the Senior Notes requiring Coca-Cola FEMSA to register the Senior Notes with the US SEC which is expected to be completed in the current year.
- On January 7, 2010, Venezuela's National Consumer Price Index for December 2009 was released. The cumulative three-year inflation rates for both of Venezuela's inflation indices are over 100 percent. As a result, beginning on January 1, 2010, the Company is considering Venezuela as highly inflationary and financial statements of Venezuelan entities will be remeasured as if the functional currency were the reporting currency as of January 1, 2010, only for U.S. GAAP purposes. For Mexican FRS, Venezuela is considered an inflationary economy since cumulative 3-year inflation rate is higher than 26%; this event will impact the Company's consolidated financial information for U.S. GAAP purposes.
- On February 1, 2010, the Company and The Coca-Cola Company signed a second amendment to the shareholders agreement that confirms contractually the capability of the Company to govern the operating and financial policies of Coca-Cola FEMSA, to exercise control over the operations in the ordinary course of business and grants protective rights to The Coca-Cola Company on such items as mergers, acquisitions or sales of any line of business. These amendments were signed without transfer of any consideration. The percentage of voting interest of the Company in Coca-Cola FEMSA remains the same after the signing of this amendment. Under U.S. GAAP, this amendment will be accounted for as a business acquisition without transfer of any consideration. As of the issuance of these consolidated financial statements, the Company is in the process of determining the fair value based on recognized techniques of Coca-Cola FEMSA as of the acquisition date in order to comply with all the accounting and disclosure requirements for business combinations, and to identify the existence of any goodwill or intangible assets as a result of the control acquisition.

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