

MEXICAN ECONOMIC DEVELOPMENT INC
Form 20-F
June 29, 2006

As filed with the Securities and Exchange Commission on June 29, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

For the fiscal year ended December 31, 2005

Commission file number 1-14814

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

(Exact Name of Registrant as Specified in Its Charter)

Mexican Economic Development, Inc.

(Translation of Registrant's Name into English)

United Mexican States

(Jurisdiction of Incorporation or Organization)

General Anaya No. 601 Pte.

Edgar Filing: MEXICAN ECONOMIC DEVELOPMENT INC - Form 20-F

Colonia Bella Vista

Monterrey, NL 64410 Mexico

(Address of Principal Executive Offices)

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

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing 10 BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value	New York Stock Exchange

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

None

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

None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2005 was:

720,392,590	BD Units, each consisting of one Series B Share, two Series D-B Shares and two Series D-L Shares, without par value. The BD Units represent a total of 720,392,590 Series B Shares, 1,440,785,180 Series D-B Shares and 1,440,785,180 Series D-L Shares.
472,349,500	B Units, each consisting of five Series B Shares without par value. The B Units represent a total of 2,361,747,500 Series B Shares.

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer

Edgar Filing: MEXICAN ECONOMIC DEVELOPMENT INC - Form 20-F

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

TABLE OF CONTENTS

	Page
<u>INTRODUCTION</u>	1
<u>References</u>	1
<u>Currency Translations and Estimates</u>	1
<u>Forward-Looking Information</u>	1
ITEMS 1-2. <u>NOT APPLICABLE</u>	2
ITEM 3 <u>KEY INFORMATION</u>	2
<u>Selected Consolidated Financial Data</u>	2
<u>Dividends</u>	4
<u>Exchange Rate Information</u>	6
<u>Risk Factors</u>	7
<u>FEMSA Cerveza</u>	10
<u>FEMSA Comercio</u>	12
ITEM 4 <u>INFORMATION ON THE COMPANY</u>	17
<u>The Company</u>	17
<u>Overview</u>	17
<u>Corporate Background</u>	17
<u>Ownership Structure</u>	20
<u>Significant Subsidiaries</u>	21
<u>Business Strategy</u>	21
<u>Coca-Cola FEMSA</u>	22
<u>FEMSA Cerveza</u>	43
<u>FEMSA Comercio</u>	54
<u>Other Business Segment</u>	59
<u>Description of Property, Plant and Equipment</u>	59
<u>Insurance</u>	61
<u>Capital Expenditures and Divestitures</u>	61
<u>Regulatory Matters</u>	62
ITEM 4A <u>UNRESOLVED STAFF COMMENTS</u>	65
ITEM 5 <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	66
<u>Overview of Events, Trends and Uncertainties</u>	66
<u>Recent Developments</u>	66
<u>Operating Leverage</u>	67
<u>Critical Accounting Estimates</u>	67
<u>New Accounting Pronouncements</u>	72
<u>Operating Results</u>	76
<u>Liquidity and Capital Resources</u>	87
<u>U.S. GAAP Reconciliation</u>	94
ITEM 6 <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	95
<u>Directors</u>	95
<u>Senior Management</u>	101
<u>Compensation of Directors and Senior Management</u>	104
<u>Stock Incentive Plan</u>	104
<u>EVA Stock Incentive Plan</u>	105
<u>Insurance Policies</u>	105
<u>Ownership by Management</u>	105
<u>Board Practices</u>	106

	Page
	<u>Statutory Examiner</u> 107
	<u>Employees</u> 107
ITEM 7	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> 109
	<u>Major Shareholders</u> 109
	<u>Related-Party Transactions</u> 109
	<u>Voting Trust</u> 109
	<u>Interest of Management in Certain Transactions</u> 110
	<u>Business Transactions between Coca-Cola FEMSA and The Coca-Cola Company</u> 111
ITEM 8	<u>FINANCIAL INFORMATION</u> 112
	<u>Consolidated Financial Statements</u> 112
	<u>Dividend Policy</u> 112
	<u>Legal Proceedings</u> 112
ITEM 9	<u>THE OFFER AND LISTING</u> 116
	<u>Description of Securities</u> 116
	<u>Trading Markets</u> 116
	<u>Trading on the Mexican Stock Exchange</u> 117
	<u>Price History</u> 117
ITEM 10	<u>ADDITIONAL INFORMATION</u> 120
	<u>Bylaws</u> 120
	<u>Taxation</u> 126
	<u>Material Contracts</u> 129
	<u>Documents on Display</u> 133
ITEM 11	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> 134
	<u>Interest Rate Risk</u> 134
	<u>Foreign Currency Exchange Rate Risk</u> 136
	<u>Equity Risk</u> 138
	<u>Commodity Price Risk</u> 138
ITEMS 12-14.	<u>NOT APPLICABLE</u> 139
ITEM 15.	<u>CONTROLS AND PROCEDURES</u> 139
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u> 139
ITEM 16B.	<u>CODE OF ETHICS</u> 139
ITEM 16C.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u> 139
ITEM 16D.	<u>NOT APPLICABLE</u> 140
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u> 140
ITEM 17.	<u>NOT APPLICABLE</u> 140
ITEM 18.	<u>FINANCIAL STATEMENTS</u> 140
ITEM 19.	<u>EXHIBITS</u> 141

INTRODUCTION

References

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

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

Currency Translations and Estimates

This annual report contains translations of certain Mexican peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Mexican peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, such U.S. dollar amounts have been translated from Mexican pesos at an exchange rate of Ps. 10.6275 to US\$ 1.00, the noon buying rate for Mexican pesos on December 31, 2005 as published by the Federal Reserve Bank of New York. On March 31, 2006, this exchange rate was Ps. 10.8980 to US\$ 1.00. See Item 3. Key Information Exchange Rate Information for information regarding exchange rates since January 1, 2001. In our previous public disclosures, we presented U.S. dollar amounts based on the exchange rate quoted by dealers to FEMSA for the settlement of obligations in foreign currencies at the end of the applicable period.

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

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

Forward-Looking Information

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

ITEMS 1-2. NOT APPLICABLE

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

This annual report includes, under Item 18, our audited consolidated balance sheets as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years ended December 31, 2005, 2004 and 2003. Our audited consolidated financial statements are prepared in accordance with accounting principles generally accepted in Mexico, or Mexican GAAP. Mexican GAAP differs in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP.

Notes 27 and 28 to our audited consolidated financial statements provide a description of the principal differences between Mexican GAAP and U.S. GAAP as they relate to our company, together with a reconciliation to U.S. GAAP of net income and stockholders' equity as well as U.S. GAAP consolidated balance sheets, statements of income, changes in stockholders' equity and cash flows for the same periods presented for Mexican GAAP purposes. In the reconciliation to U.S. GAAP, we present our subsidiary Coca-Cola FEMSA, which is a consolidated subsidiary for purposes of Mexican GAAP, under the equity method for U.S. GAAP purposes, due to the substantive participating rights of The Coca-Cola Company as a minority shareholder in Coca-Cola FEMSA.

The effects of inflation accounting under Mexican GAAP have not been reversed in the reconciliation to U.S. GAAP. See note 27 to our audited consolidated financial statements.

Our subsidiary, Coca-Cola FEMSA, acquired Corporación Interamericana de Bebidas, S.A. de C.V., known at the time of acquisition as Panamerican Beverages, Inc. and which we refer to as Panamco, on May 6, 2003. Panamco is included in our audited consolidated financial statements since May 2003 but is not included prior to this date.

Edgar Filing: MEXICAN ECONOMIC DEVELOPMENT INC - Form 20-F

The following table presents selected financial information of our company. This information should be read in conjunction with, and is qualified in its entirety by, our audited consolidated financial statements and the notes to those statements. The selected financial information is presented on a consolidated basis and is not necessarily indicative of our financial position or results of operations at or for any future date or period.

Selected Consolidated Financial Information

	2005 ⁽¹⁾	2005	Year Ended December 31,		2002	2001
			2004	2003 ⁽²⁾		
	(in millions of U.S. dollars and millions of Mexican pesos at December 31, 2005, except for per share data, the weighted average number of shares outstanding and percentages)					
Income Statement Data:						
Mexican GAAP:						
Total revenues	\$ 9,935	Ps. 105,582	Ps. 96,833	Ps. 82,496	Ps. 59,996	Ps. 57,042
Income from operations	1,467	15,587	14,236	13,073	10,542	9,557
Taxes ⁽³⁾	431	4,584	2,533	3,785	4,090	3,337
Change in accounting principle	4	46				(33)
Consolidated net income	768	8,158	9,558	5,067	5,208	5,669
Net majority income	522	5,549	6,027	3,408	3,203	3,856
Net minority income	246	2,609	3,531	1,659	2,005	1,813
Net majority income: ⁽⁴⁾						
Per Series B Share	0.08	0.87	1.01	0.57	0.54	0.65
Per Series D Share	0.10	1.09	1.27	0.72	0.67	0.81
Weighted average number of shares outstanding (in millions):						
Series B Shares	2,944.9	2,944.9	2,739.2	2,739.2	2,739.2	2,739.2
Series D Shares	2,753.4	2,753.4	2,561.0	2,561.0	2,561.0	2,561.0
Allocation of earnings:						
Series B Shares	46.11%	46.11%	46.11%	46.11%	46.11%	46.11%
Series D Shares	53.89%	53.89%	53.89%	53.89%	53.89%	53.89%
U.S. GAAP:						
Total revenues	\$ 5,493	Ps. 58,382	Ps. 51,461	Ps. 46,104	Ps. 41,611	Ps. 40,051
Income from operations	602	6,401	5,568	4,982	5,131	4,254
Participation in Coca-Cola FEMSA's earnings ⁽⁵⁾	191	2,035	2,720	1,170	1,455	1,327
Change in accounting principle						(26)
Minority interest			485	397	642	514
Net income	502	5,333	6,809	3,555	3,484	3,592
Net income: ⁽⁴⁾						
Per Series B Share	0.08	0.84	1.15	0.60	0.59	0.61
Per Series D Share	0.10	1.04	1.43	0.75	0.73	0.76
Balance Sheet Data:						
Mexican GAAP:						
Total assets	\$ 11,856	Ps. 125,998	Ps. 125,075	Ps. 115,692	Ps. 68,119	Ps. 57,927
Current liabilities	1,867	19,839	24,393	18,572	13,386	9,736
Long-term debt ⁽⁶⁾	2,798	29,732	37,502	36,392	11,078	8,053
Other long-term liabilities	868	9,235	9,302	10,355	6,367	6,026
Capital stock	466	4,953	4,612	4,612	4,612	4,612
Total stockholders' equity	6,323	67,192	53,878	50,373	37,288	34,112
Majority interest	4,503	47,851	36,660	31,187		