MEXICAN ECONOMIC DEVELOPMENT INC
Form 6-K
July 31, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 6-K

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

For the month of July 2006

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.
Colonia Bella Vista
Monterrey, Nuevo León 64410
México
(Address of principal executive offices)

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

Form 20-F x Form 40-F o

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

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

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

Yes o No x

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

FEMSA Delivers Solid Growth in Second Quarter 2006

MONTERREY, Mexico, July 28 /PRNewswire-FirstCall/ -- Fomento Economico Mexicano, S.A. de C.V. (NYSE: FMX) (FEMSA) today announced its operational and financial results for the second quarter and first half of 2006.

Second Quarter 2006 Highlights

FEMSA

-- Consolidated total revenues increased 13%, reaching Ps. 31.869 billion.

-- Income from operations increased 9%, reaching Ps. 4.846 billion. All operating units contributed to this growth.

-- Net majority income increased 22%, reaching Ps. 1.820 billion.

Business Units

-- FEMSA Cerveza (excluding Kaiser) revenues increased 10% and income from operations increased 19%. Domestic sales volume grew 7.6% and domestic price per hectoliter increased 4.8%.

-- Coca-Cola FEMSA total revenues increased 4%, driven largely by Brazil and Central America. Strong volume growth in Mexico was offset by pricing pressure in the Valley of Mexico.

-- Oxxo increased its revenues by 23%, driven by 152 net new stores and 10% growth in same-store sales. There are now 4,366 Oxxo stores throughout Mexico.

A robust consumer environment continued through the second quarter in our main markets, particularly Mexico, and we capitalized on it as our beer operations delivered compelling volume growth with strong pricing. We continued to open Oxxo stores at a rapid pace, surpassing 700 net new stores opened in the past twelve months, and Coca-Cola FEMSA delivered solid growth in the face of tough year-on-year comparisons. Specific events such as the FIFA World Cup and the run-up to Mexican elections helped spur demand for all our businesses. The FEMSA team continues to execute on our strategy, and we are well on our way to achieving another banner year for our company, commented Jose Antonio Fernandez, Chairman and CEO of FEMSA.

To obtain the full text of this earnings release, please visit our Investor Relations website at http://www.femsa.com/investor under the Financial Reports section.

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

FEMSA is the leading beverage company in Latin America. It controls an integrated beverage platform that comprises Coca-Cola FEMSA, the largest Coca-Cola bottler in the region; FEMSA Cerveza, one of the leading brewers in Mexico and important beer exporter to the United States; and Oxxo, the largest and fastest growing convenience store chain in Mexico, with over 4,000 stores.

SOURCE Fomento Economico Mexicano, S.A. de C.V.

-0- 07/28/2006

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/Web site: http://www.femsa.com /

Latin America´s Beverage Leader

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FEMSA Consolidated

Total revenues increased 13.2% to Ps. 31.869 billion in 2Q06. This increase was driven by revenue growth in every one of our business units, with 23.0% total revenue growth at the Oxxo retail chain, 10.2% at FEMSA Cerveza, and 3.9% at Coca-Cola FEMSA.

For the first half of 2006, consolidated total revenues increased 14.1% to Ps. 59.543 billion.

Gross profit increased 11.8% to Ps. 14.960 billion in 2Q06, resulting in a 60 basis point decrease in gross margin, reaching 46.9% of total revenues. The gross margin improvement of 180 basis points at FEMSA Cerveza was not enough to compensate for the gross margin contraction of 120 basis points at Coca-Cola FEMSA, the inclusion of lower margin Kaiser operations, and the greater contribution of lower margin Oxxo retail operations in FEMSA s consolidated results.

For the first half of 2006, gross profit increased 13.5% to Ps. 27.614 billion. The gross margin decreased 20 basis points from the same period of 2005 to 46.4% of total revenues primarily due to the greater contribution of the Oxxo retail operations in FEMSA s consolidated results and the inclusion of lower margin Kaiser operations.

Income from operations increased 9.1% to Ps. 4.846 billion in 2Q06, resulting in a 60 basis point contraction in the operating margin, reaching 15.2% in the quarter. The decrease in operating margin was primarily attributable to the increased contribution of the Oxxo retail chain, the inclusion of Kaiser in our consolidated results, and a 60 basis point decrease in Coca-Cola FEMSA s operating margin. Partially offsetting this decrease was a 170 basis point margin improvement at FEMSA Cerveza.

For the first half of 2006, income from operations increased 11.1% to Ps. 8.129 billion. The consolidated operating margin decreased 30 basis points from 2005 levels, reaching 13.7% of total revenues.

Net income decreased 1.4% to Ps. 2.219 billion in 2Q06. In spite of strong growth in income from operations, a decrease in net interest expense and a reduction in the effective tax rate, these factors did not fully offset a lower monetary gain due to the inflationary impact on our reduced net liabilities, and a foreign exchange loss due to the sequential devaluation of the Mexican peso as applied to our US dollar debt. The effective tax rate for the quarter was 33.0%.

For the first half of 2006, net income increased 13.6% to Ps. 3.878 billion due to strong growth in income from operations combined with a decrease in net interest expense and a reduction in the effective tax rate.

Net majority income per FEMSA Unit[1] was Ps. 1.526 in 2Q06. Net majority income per FEMSA ADS, using an exchange rate of Ps. 11.3973 per dollar, was US$ 1.339 in the quarter.

Capital expenditures increased 34.3% to Ps. 2.040 billion in 2Q06, reflecting increased investment in all three main business units in line with our budget.

Consolidated net debt. As of June 30, 2006, FEMSA recorded a cash balance of Ps. 8.680 billion (US$ 762 million), short-term debt of Ps. 9.004 billion (US$ 790 million) and long-term debt of Ps. 27.843 billion (US$ 2.443 billion), for a net debt balance of Ps. 28.167 billion (US$2.471 billion).

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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 June 30, 2006 was 1,192,742,090 equivalent to the total number of FEMSA Shares outstanding as of the same date, divided by 5.

Soft Drinks   Coca-Cola FEMSA

Coca-Cola FEMSA s financial results and discussion are incorporated by reference from Coca-Cola FEMSA s press release attached to this press release.

Beer   FEMSA Cerveza

Domestic sales volume in Mexico increased 7.6% to 7.022 million hectoliters in 2Q06, reflecting a strong consumer environment and successful marketing and commercial strategies put in place for our *Tecate Light, Sol,* and *Indio* brands, as well as favorable seasonality due to the timing of the Easter holiday and a positive effect from the FIFA World Cup.

For the first half of 2006, domestic sales volume increased 5.8% to 12.536 million hectoliters.

Export sales volume decreased 0.5% to 0.761 million hectoliters in 2Q06, as inventory built up in the U.S. market from the first quarter worked its way through the channel in 2Q. Year to date export sales volume increased 15.4% to 1.406 million hectoliters, well on track to achieve our export sales volume objectives for 2006. Together with Heineken USA, we continue to increase coverage and marketing for our brands in the U.S.

Total revenues increased 10.2% to Ps. 8.384 billion in 2Q06, primarily resulting from a 10.7% increase in beer sales. Both total sales volume and domestic price per hectoliter positively contributed to beer sales growth, increasing 6.7% and 4.8%, respectively. The full impact of the January domestic price increase combined with a stable pricing environment and an increase in our direct distribution are reflected in the increased domestic unit price. Conversely, the export price per hectoliter decreased 4.2% in 2Q06 largely due to the strengthening of the peso in real terms, as well as a geographic and mix effect due to a lower comparison base in our West Coast volumes.

For the first half of 2006, total revenues increased 10.3% to Ps. 14.858 billion driven by a 10.3% increase in beer sales. Export beer sales volume represented 10.1% of total beer sales volume, up from 9.3% in the comparable period of last year.

Cost of sales increased 5.5% to Ps. 3.205 billion in 2Q06. This increase was below the increase in total revenues as a result of improved fixed cost absorption and productivity improvements, which more than compensated for the continued price increases of certain important raw materials such as aluminum and energy. Gross profit increased 13.4% to Ps. 5.179 billion in 2Q06, achieving 180 basis points of gross margin expansion and reaching a gross margin of 61.8%.

For the first half of 2006, cost of sales increased 5.7% to Ps. 5.811 billion. Gross margin grew by 170 basis points, reaching 60.9% of total revenues.

Income from operations increased 18.8% to Ps. 1.963 billion in 2Q06. This increase was driven by solid revenue growth and a lower cost of sales combined with stable operating expenses as a percentage of total revenues. Operating expenses increased 10.3% to Ps. 3.216 billion reaching 38.4% of total revenues in 2Q06. The main reasons for this increase were the stepped up marketing for our brands, enhancements to our operating structure, and costs related to our continuing efforts to transfer third-party domestic volume to our direct distribution platform. We achieved 170 basis points of operating margin expansion during the quarter, reaching 23.4% of total revenues.

For the first half of 2006, income from operations increased 18.6% to Ps. 2.935 billion, reaching 19.8% of total revenues.

Kaiser

On January 13, 2006, we acquired a controlling stake in Cervejarias Kaiser in Brazil. The information in this press release is for the second quarter and first half of 2006 of Kaiser under FEMSA Cerveza.

In 2Q06, Kaiser total revenues reached Ps. 944 million on sales volume of 1.854 million hectoliters. As we approached winter in Brazil, 2Q beer volumes were lower sequentially and therefore fixed cost absorption was lower during the period. Cost of sales reached Ps. 590 million, resulting in a gross margin of 37.5% of total revenues. Operating expenses represented 40.5% of total revenues at Ps. 382 million, with administrative expenses of Ps. 108 million and selling expenses of Ps. 274 million. The quarter showed an operating loss of Ps. 28 million in 2Q06.

As stated previously, we are focused on executing commercial strategies aimed at stabilizing the business, while we continue the process of analyzing and shaping what is to be the optimal brand and presentation portfolio going forward. Our turnaround plan is on track for 2006.

Oxxo Stores FEMSA Comercio

Total revenues increased 23.0% to Ps. 8.933 billion in 2Q06. The primary reason for the increase was the opening of 152 net new Oxxo stores in the quarter, and a total of 706 net new Oxxo stores since 2Q05 for a total of 4,366 Oxxos nationwide. For the first half of 2006, total revenues increased 20.9% to Ps. 16.441 billion.

Same-store sales increased an average of 9.8% in 2Q06, driven by increases of 6.3% in store traffic and 3.3% in average ticket. These increases reflect stronger promotional activity and category management practices that are enabling Oxxo to drive more customers into the store, while realizing a slightly higher ticket per transaction.

For the first half of 2006, Oxxo same store sales increased an average of 8.6%, driven by increases of 6.4% in store traffic and 2.2% in average ticket.

Cost of sales increased 22.5% to Ps. 6.577 billion in 2Q06, resulting in a 30 basis point improvement in gross margin, reaching 26.4% of total revenues. This improvement resulted from better purchasing terms and coordinated efforts with our suppliers to provide the right promotions and the right products for consumers.

Income from operations increased 25.1% to Ps. 384 million. We continue to invest in Oxxo s infrastructure in order to build a robust system that accommodates and leverages our rapid store growth. We are developing much stronger supply management and information technology capabilities, cognizant that these efforts put pressure on our margins in the short term. Even so, operating margin expanded by 10 basis points to 4.3% of total revenues in 2Q06 as the improved gross margin was partially offset by an increase in operating expenses. In addition to our investments in infrastructure, the growth in operating expenses during the quarter was driven by higher corporate management fees and higher energy tariffs in unseasonably warm weather, particularly in Northern Mexico.

For the first half of 2006, income from operations increased 17.2% to Ps. 566 million, resulting in an operating margin of 3.4%, a 20 basis point contraction from the prior year. This decline was driven by higher expenses related to the development of direct distribution capabilities and costs related to Oxxo s robust store growth. Examples of these are increases in performance-based compensation as well as new personnel as we opened three new regional offices.

CONFERENCE CALL INFORMATION:
Our Second Quarter and First Half 2006 Conference Call will be held on: Monday July 31, 2006, 10:00 A.M. Eastern Time (9:00 AM Mexico City Time). To participate in the conference call, please dial: Domestic U.S.: 1-800-811-8824, International: 913-981-4903. This Conference Call will also be transmitted through live webcast at www.femsa.com/investor

If you are unable to participate live, an instant replay of the conference call will be available through August 6, 2006. To listen to the replay please dial: Domestic U.S.: 1-888-203-1112; International: 719-457-0820, Passcode: 9643656.

Set forth in this press release is certain unaudited financial information for FEMSA for the second quarter and first half of 2006 compared to the second quarter and first half of 2005. We are a holding company whose principal activities are grouped under the following sub-holding companies and carried out by their respective operating subsidiaries: Coca-Cola FEMSA, S.A. de C.V., which engages in the production, distribution and marketing of non-alcoholic beverages; FEMSA Cerveza, S.A. de C.V., which engages in the production, distribution and marketing of beer; and FEMSA Comercio, S.A. de C.V., which engages in the operation of convenience stores.

All of the figures in this report were prepared in accordance with Mexican generally accepted accounting principles (Mexican GAAP) and have been restated in constant Mexican pesos (Pesos or Ps.) with purchasing power as of June 30, 2006. As a result, all percentage changes are expressed in real terms.

The translations of Mexican pesos into U.S. dollars are included solely for the convenience of the reader, using the exchange rate provided by the company in the tables that accompany this release. The exchange rate used for this purpose is 11.3973 Mexican pesos per U.S. dollar, which is as of the end of the reporting period.

FORWARD LOOKING STATEMENTS

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

Seven pages of tables and Coca-Cola FEMSA s press release to follow

FEMSA

Consolidated Income Statement
Expressed in Millions of Pesos

	For the second quarter of:					For the six months of:				
	2006	**% of rev.**	**2005**	**% of rev.**	**% Increase**	**2006**	**% of rev.**	**2005**	**% of rev.**	**% Increase**
Net sales	**31,746**	99.6	**28,016**	99.5	13.3	**59,321**	99.6	**51,893**	99.4	14.3
Other operating revenues	**123**	0.4	**137**	0.5	(10.2)	**222**	0.4	**287**	0.6	(22.6)
Total revenues	**31,869**	100.0	**28,153**	100.0	13.2	**59,543**	100.0	**52,180**	100.0	14.1
Cost of sales	**16,909**	53.1	**14,769**	52.5	14.5	**31,929**	53.6	**27,847**	53.4	14.7
Gross profit	**14,960**	46.9	**13,384**	47.5	11.8	**27,614**	46.4	**24,333**	46.6	13.5
Administrative expenses	**2,091**	6.6	**1,782**	6.3	17.3	**4,080**	6.9	**3,495**	6.7	16.7
Selling expenses	**8,023**	25.1	**7,159**	25.4	12.1	**15,405**	25.8	**13,521**	25.9	13.9
Operating expenses	**10,114**	31.7	**8,941**	31.7	13.1	**19,485**	32.7	**17,016**	32.6	14.5
Income from operations	**4,846**	15.2	**4,443**	15.8	9.1	**8,129**	13.7	**7,317**	14.0	11.1
Interest expense	**(1,021)**		**(1,091)**		(6.4)	**(1,998)**		**(2,158)**		(7.4)
Interest income	**184**		**172**		7.0	**345**		**295**		16.9
Interest expense, net	**(837)**		**(919)**		(8.9)	**(1,653)**		**(1,863)**		(11.3)
Foreign exchange (loss) gain	**(294)**		**169**		N.S.	**(436)**		**139**		N.S.
Gain (loss) on monetary position	**(18)**		**(24)**		(25.0)	**214**		**296**		(27.7)
Unhedged derivative instrument (loss) gain	**(28)**		**23**		N.S.	**(59)**		**22**		N.S.
Integral result of financing	**(1,177)**		**(751)**		56.7	**(1,934)**		**(1,406)**		37.6
Other (expenses) income	**(349)**		**(130)**		N.S.	**(343)**		**(260)**		31.9
Income before taxes	**3,320**		**3,562**		(6.8)	**5,852**		**5,651**		3.6
Taxes	**(1,101)**		**(1,312)**		(16.1)	**(1,974)**		**(2,237)**		(11.8)
Net income	**2,219**		**2,250**		(1.4)	**3,878**		**3,414**		13.6
Net majority income	**1,820**		**1,497**		21.6	**2,953**		**2,257**		30.8
Net minority income	**399**		**753**		(47.0)	**925**		**1,157**		(20.1)
EBITDA & CAPEX										
Income from operations	**4,846**	15.2	**4,443**	15.8	9.1	**8,129**	13.7	**7,317**	14.0	11.1
Depreciation	**1,018**	3.2	**855**	3	19.1	**1,976**	3.3	**1,740**	3.3	13.6
Amortization & other	**952**	3	**971**	3.5	(2.0)	**1,841**	3.1	**1,746**	3.4	5.4
EBITDA	**6,816**	21.4	**6,269**	22.3	8.7	**11,946**	20.1	**10,803**	20.7	10.6

CAPEX	**2,040**	**1,519**	34.3	**3,307**	**2,585**	27.9

FINANCIAL RATIOS	**2006**	**2005**	**Var. p.p.**
Liquidity[1]	**0.93**	**1.28**	(0.35)
Interest coverage[2]	**7.23**	**5.80**	1.43
Leverage[3]	**0.96**	**1.04**	(0.08)
Capitalization[4]	**34.44%**	**39.80%**	(5.36)

(1) Total current assets / total current liabilities.
(2) Income from operations + depreciation + amortization & other / interest expense, net.
(3) Total liabilities / total stockholders equity.
(4) Total debt / long-term debt + stockholders´ equity.
Total debt = short-term bank loans + current maturities long-term debt + long-term bank loans and notes payable.

FEMSA

Consolidated Balance Sheet
As of June 30:
(Expressed in Millions of Pesos as of June 30, 2006)

	2006	2005	% Increase
ASSETS			
Cash and cash equivalents	**8,680**	**10,758**	(19.3)
Accounts receivable	**5,817**	**5,760**	1.0
Inventories	**7,131**	**5,890**	21.1
Prepaid expenses and other	**2,608**	**1,265**	106.2
Total current assets	**24,236**	**23,673**	2.4
Property, plant and equipment, net	**50,376**	**48,107**	4.7
Intangible assets [1]	**52,906**	**48,782**	8.5
Deferred assets	**6,949**	**6,199**	12.1
Other assets	**2,832**	**3,306**	(14.3)
TOTAL ASSETS	**137,299**	**130,067**	5.6
LIABILITIES & STOCKHOLDERS´ EQUITY			
Bank loans	**2,839**	**679**	318.1
Current maturities long-term debt	**6,165**	**3,408**	80.9
Interest payable	**374**	**359**	4.2
Operating liabilities	**16,747**	**14,069**	19.0
Total current liabilities	**26,125**	**18,515**	41.1
Long-term debt	**27,843**	**38,166**	(27.0)
Deferred income taxes	**3,657**	**3,953**	(7.5)
Labor liabilities	**2,597**	**2,140**	21.4
Other liabilities	**6,947**	**3,388**	105.0
Total liabilities	**67,169**	**66,162**	1.5
Total stockholders equity	**70,130**	**63,905**	9.7
LIABILITIES AND STOCKHOLDERS EQUITY	**137,299**	**130,067**	5.6

[1] Includes mainly the intangible assets generated by acquisitions.

	June 30, 2006		
DEBT MIX	***Ps.***	***% Integration***	***Average Rate***
Denominated in:			
Mexican pesos	**25,421**	69.0%	9.6%
Dollars	**9,803**	26.7%	6.9%
Brazilian Reals	**521**	1.4%	10.3%
Venezuelan bolivars	**381**	1.0%	11.2%

Colombian pesos	**378**	1.0%	14.6%
Argentinan pesos			