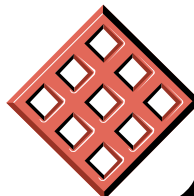


*United to create value*



ANNUAL REPORT 2001



EMBOTELLADORAS  
**ARCA**

# Profile

CORPORATE PROFILE

Arca is dedicated to the production, distribution and sale of beverages under The Coca-Cola Company brand, as well as proprietary and third party brands. Arca was formed in 2001 through the merger of three of the oldest bottlers in Mexico and is now the second-largest Coca-Cola bottler in the country. The company distributes its products in the northern region of Mexico, primarily in the states of Tamaulipas, Nuevo León, Coahuila, Chihuahua, Sonora, Sinaloa, Baja California and Baja California Sur. In order to supply its own packaging needs, Arca also produces plastic bottles, bottle caps, lids and plastic containers.



Our cover projects the expected benefits of the merger of three of the oldest bottlers in Mexico.

## Contents

Financial Highlights	1
Letter to our Shareholders	2
Organization Chart	6
Corporate Structure	7
Brief History of Procor	12
Key Steps of the Merger	13
Goals of the Merger	15
Benefits of the Merger	16
Brief History of Arma	18
Marketing and Sales	19
Brief History of Argos	24
Human Resources and Internet	29
Product Portfolio	30
Board of Directors	32
Senior Management	34
Management Discussion and Analysis	35
Pro Forma Financial Statements	38
Consolidated Financial Statements	40
Glossary	72

# Financial Highlights

**FINANCIAL HIGHLIGHTS\***

Million of pesos of December 31, 2001 purchasing power, except volumes, average price and per share data

	2001	2000	1999
<b>SALES VOLUMES (MILLION OF UNIT CASES) <sup>1</sup></b>			
EASTERN DIVISION	228.9	247.1	250.9
WESTERN DIVISION	173.9	172.5	160.9
<b>TOTAL</b>	<b>402.8</b>	<b>419.6</b>	<b>411.8</b>
<b>NET SALES</b>	<b>13,100</b>	<b>12,836</b>	<b>11,596</b>
AVERAGE PRICE (PESOS/UNIT CASE)	32.5	30.6	28.2
GROSS MARGIN	53.6%	50.5%	45.6%
OPERATING INCOME <sup>2</sup>	2,635	2,618	1,710
EBITDA <sup>3</sup>	3,296	3,268	2,340
EARNINGS BEFORE INCOME TAXES AND EMPLOYEE PROFIT SHARING <sup>4</sup>	2,611	2,493	1,726
NET INCOME <sup>4</sup>	1,367	1,412	940
TOTAL ASSETS	12,306	12,031	11,455
STOCKHOLDERS' EQUITY (MAJORITY INTEREST)	7,405	8,606	7,902
CAPITAL EXPENDITURES, NET	540	665	750
<b>PER SHARE DATA <sup>5</sup></b>			
NET INCOME <sup>4</sup>	<b>1.70</b>	<b>1.75</b>	<b>1.17</b>
BOOK VALUE	<b>9.19</b>	<b>10.68</b>	<b>9.80</b>

\* Pro forma figures, for comparative purposes only. These were created as if Embotelladoras Argos, S.A., Empresas El Carmen, S.A. de C.V., and Promotora Empresarial Arma S.A. de C.V. had formed part of Embotelladoras Arca, S.A. de C.V. since January 1 of 1999, 2000 and 2001.

<sup>1</sup> Excludes sales of water in jugs (59.2 MUC in 2001 and 54.9 MUC in 2000), as well as exports and sales of Topo Chico products outside of Arca's territories (3.6 MUC in 2001 and 5.8 MUC in 2000).

<sup>2</sup> Excludes merger related expenses for a total of 55.4 million during 2001, which the Company considers non-recurring.

<sup>3</sup> Operating income plus depreciation and amortization of goodwill. For 2001, merger related expenses were also excluded, as mentioned in note 2.

<sup>4</sup> 2001 excludes merger related expenses as mentioned in note 2, as well as Ps. 108 million extraordinary net losses.

<sup>5</sup> Based on 806,019,659 shares outstanding.

**ARGOS**

Founded in 1926 and *Coca-Cola* bottler since 1936. Argos brings to the merger 7 bottling plants located in the states of Chihuahua, Sonora, Sinaloa and Baja California, as well as 3 plastic bottle production plants. In 2000, its sales volume was 151.8 million unit cases.

**ARMA**

Began in 1918 with an ice factory and started bottling *Coca-Cola* products in 1926. Prior to the merger, Arma operated 7 soft drink bottling plants in the states of Coahuila, San Luis Potosí, Sinaloa and Baja California Sur, and one plastic bottle blowing plant. In 2000, its sales volume was 79.5 million unit cases.

**PROCOR**

Its origins date back to 1895 when the Topo Chico Company began bottling mineral water. It became a *Coca-Cola* bottler in Mexico in 1926. Up until the merger, Procor had 7 plants in the states of Nuevo León and Tamaulipas and produced plastic bottles in 2 plants. In 2000, its sales volume was 194.0 million unit cases.



Resulting from the merger of three of the oldest bottlers in Mexico – Argos, Arma and Procor – Embotelladoras Arca, S.A. de C.V. emerges with the commitment of creating and multiplying value, by providing the best service and a complete portfolio of products with optimal levels of quality, convenience and brand recognition, thus achieving high productivity levels with the goal of giving an attractive return to its shareholders while promoting community development.

# Geographic Distribution

## GEOGRAPHIC DISTRIBUTION

(Note: The map of Mexico is divided according to the various territories defined by The Coca-Cola Company)



Note: All of the subsidiaries in both the Eastern and Western Divisions are "S.A. de C.V."

\* Serve the same territories.



Embotelladora de la Frontera  
Ciudad Juárez Plant  
Ciudad Juárez, Chihuahua



Embotelladora El Carmen  
Plant I  
Saltillo, Coahuila



Bebidas Mundiales  
Insurgentes Plant  
Monterrey, Nuevo León

# Letter to our shareholders

## DEAR SHAREHOLDERS:



Senior Executive Committee  
of Embotelladoras Arca, S.A. de C.V.

From left to right:

*Eduardo Ángel Elizondo Barragán,*

*Emilio Antonio Arizpe y de la Maza,*

*Miguel Antonio Fernández Iturriza y*

*Luis Lauro González Barragán.*

2001 was a monumental year for our families, our shareholders and the *Coca-Cola* bottling system in Mexico. What many thought to be an impossible task, became a reality. Lately, mergers of family-owned companies have been uncommon, not only in Mexico, but also in other parts of the world. The incorporation of Arca has

demonstrated that the union and coexistence of various personal and family interests is feasible when it is oriented towards increasing results, to reach higher goals that would otherwise be difficult to achieve.

What began as a friendly conversation among the family owners of three of the oldest *Coca-Cola* bottlers in Mexico – Argos, Arma and Procor – resulted in their merger and the creation of Embotelladoras Arca S.A. de C.V. Arca is now the second-largest *Coca-Cola* bottler in Mexico and the exclusive bottler serving a large part of the Northern region of the country.

Completing the incorporation of Arca on schedule and within the previously established framework was a success in and of itself. The first step was the merger of Procor and Arma, which took place during August and September of 2001. In December 2001, a tender offer for Argos shares and the reciprocal subscription of Arca shares was completed. Over 99.6% of Argos' shares were tendered for Arca shares at a 1:1 ratio and a price of Ps. 22.50 per share. These figures clearly indicated shareholders' acceptance of the three-way merger. At the same time, we acquired *The Coca-Cola Company's* stakes in Arma and Argos for a total of US\$194 million.

Today, Arca is a company with annual sales of over Ps. 13.1 billion, close to Ps. 12.3 billion in total assets and a market capitalization of approximately US\$ 2 billion. Arca sells over 400 million unit cases per year reaching approximately 14 million people in a territory with one of the highest per capita consumption rates of *Coca-Cola* in the

world. We are confident that our closeness with our customers enables us to better satisfy their needs. To achieve this, we rely on the efforts and valuable collaboration of over 17,000 employees; we currently have 21 bottling plants, 85 distribution centers, 2,500 delivery trucks and close to 156,000 refrigerators and vending machines.

Since completing the formation of Embotelladoras Arca in December of 2001, we have been working diligently to combine our operations, define our corporate strategy and achieve the synergies that are the main reasons for this merger. Currently, we are identifying and capitalizing on the strengths and opportunities that exist in each of our markets.

The economic recession experienced in both the U.S. and Mexico throughout 2001, coupled with a strong Mexican peso, caused a slight decline in economic activity in practically all of our territories. For the first time in more than a decade, the maquiladora industry contracted significantly and unemployment reached record levels in all of the border states. However, to exceed our consumers' expectations, we worked diligently to improve our high quality standards, adequate product mix and availability of our products.

Arca's pro forma sales volume reached 406.5 million unit cases in 2001, 4.4% below the previous year mainly due to the economic slowdown, unfavorable weather conditions and a significant price increase in soft drinks in the Eastern Division. Despite this, pro forma net sales in 2001 increased by 2.1% compared to 2000, with an operating margin (excluding merger-related expenses) of 20.1%. Due to the already low cost structure of our predecessors, pro forma net income per share (excluding merger-related expenses and losses) was Ps. 1.70, below the Ps. 1.75 reported for 2000.

In our Eastern Division, which includes several of the cities with the highest per capita *Coca-Cola* consumption rates in the world, sales volumes reached 228.9 million unit cases, down 7.3%. This was largely due to the 22% increase in soft drink prices during March of 2001, as well as the previously mentioned economic slowdown. In this division, we had a market share of 79% in 2001, slightly below 81.6% achieved in 2000.

*The incorporation of Arca has demonstrated that the union and coexistence of various personal and family interests is feasible when it is oriented towards increasing results, to reach higher goals that would otherwise be difficult to achieve.*

*2002 will be a year of intense work and reorganization for us. As we strive to reach our goal of creating value, we will continue to reap the benefits of this merger through teamwork, continuously focused on productivity and creativity.*

The Western Division serves the cities with the highest population growth and greatest concentration of maquiladoras in Mexico. This division achieved sales volumes of 173.9 million unit cases in 2001, up 0.8% from 2000. Thus, the market share of the Western Division remained practically flat, from 83.6% in 2000 to 83.1% in 2001.

Throughout our markets, we continue seeing clear trends in consumer tastes and packaging preferences. The accessibility of soft drinks for the consumer continues to play an increasingly important role in sales. This is reflected in the higher demand for non-

returnable presentations, which grew 11.5% during 2001, representing 32.5% of our total volume, compared to 28.0% in 2000. The *Coca-Cola* brands contributed 88.0% of our total sales volume in 2001, which was in line with the 87.7% reported in 2000.

2002 will be a year of intense work and reorganization for us. As we strive to reach our goal of creating value, we will continue to reap the benefits of this merger through teamwork, continuously focused on productivity and creativity. Our clients and consumers seek quality, convenience and brand recognition in our products; therefore, we are determined to optimize our structure in order to exceed their expectations.

We are excited to work together to continue the traditions of quality, service and social responsibility that were established and shared by our forefathers over 80 years ago. We proudly accept the task of successfully managing this great company through a new era.

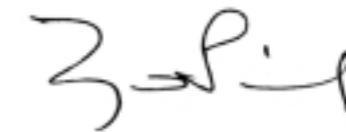
Just as *The Coca-Cola Company* demonstrated its trust in us during these negotiations, we reaffirm our commitment to the most recognized brand in the world; we will work with *Coca-Cola* to launch products that not only satisfy our consumers' needs but are also profitable to both parties.

On behalf of the members of the Arizpe, Barragán and Fernández families, we profoundly express our thanks to the management team and employees of Arca for their hard work and patience in helping us make this merger happen. Their loyalty and dedication will be rewarded as they see the fruits of their efforts transform Arca into one of the leading bottlers in Mexico.

We also thank our shareholders for instilling their trust in us and we reaffirm our commitment to continuously add value for all. The experiences and expertise of our predecessors, the knowledge and professionalism of our employees as well as the operating and financial synergies that are generated will enable this great company to reach those goals that were once unattainable.

Based on the traditional values of our founders, taking advantage and multiplying the new opportunities that this merger brings, we look forward to a promising future for Embotelladoras Arca.

*Yours truly,*



*Miguel A. Fernández Iturriza*

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

# United in diversity

## ORGANIZATION CHART OF THE NEW COMPANY



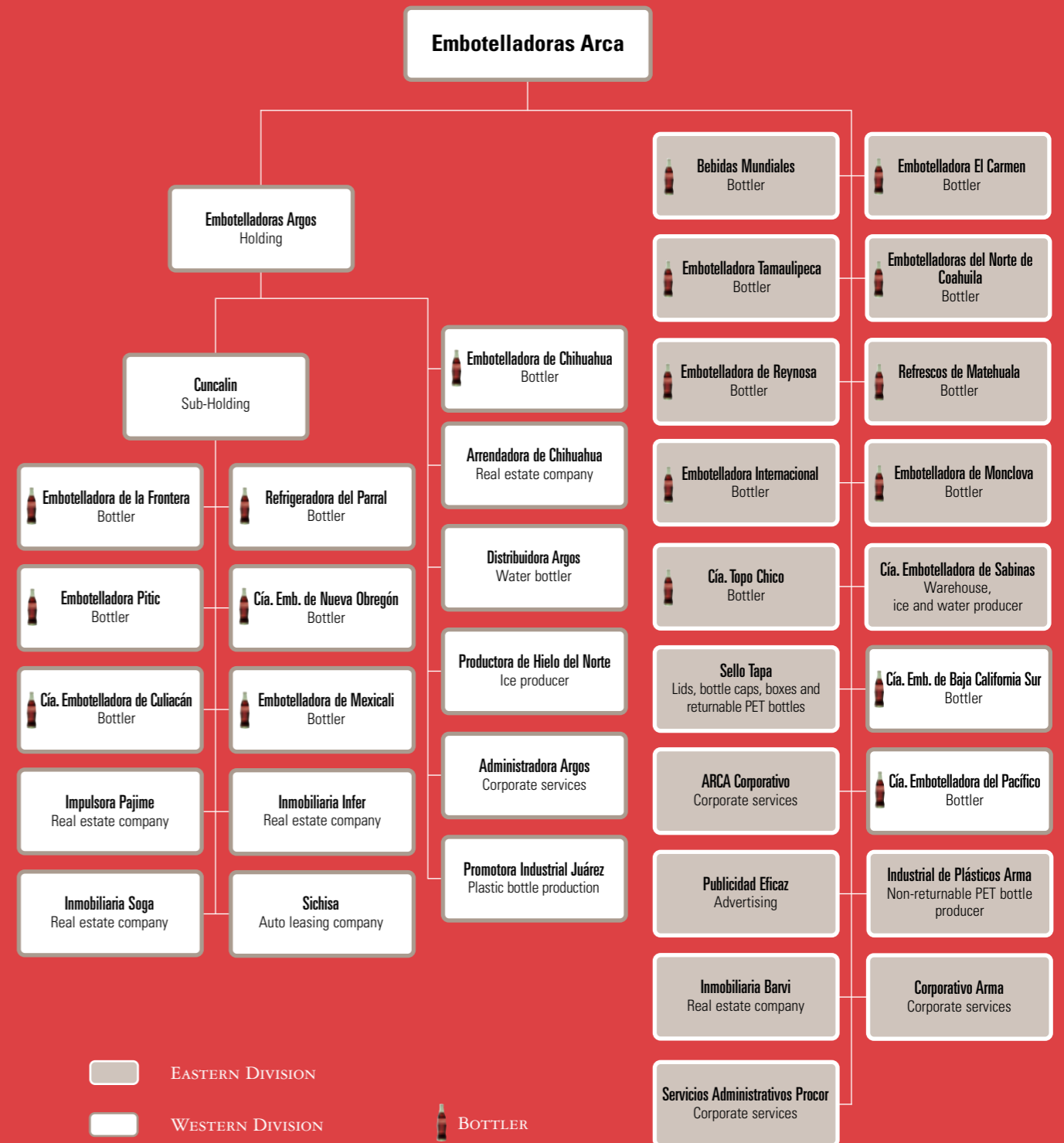
To face the new challenges, the corporate structure is based on two geographic divisions, which have similar organizational structures and are each led by a Chief Operating Officer.

The new organizational structure of Arca provides significant competitive advantages, not only due to its composition but also due to the organizational processes that it generates:

- It centralizes and enables the sharing of knowledge and experiences obtained in the various regions, but at the same time it provides flexibility to adopt different strategies depending on the competitive environment of each territory.
- It places the management of the company in the hands of professionals.
- It generates savings at all levels of the operation through economies of scale.

# United in diversity

## CORPORATE STRUCTURE



EASTERN DIVISION  
 WESTERN DIVISION



Note: All subsidiaries are "S.A. de C.V." except Embotelladoras Argos and Servicios Administrativos Procor.