



# Earnings Release



ARCA

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## SECOND QUARTER 2005 RESULTS

- Total sales volume grew 4.4% in 2Q05.
- Operating income increased 16% to Ps. 854 million in 2Q05 with an operating margin of 22.2%.
- Selling and administrative expenses decreased by 7% in 2Q05.

### Second Quarter 2005 (2Q05) Highlights:

- In 2Q05, total sales volume\* increased 4.4% to 116.1 million unit cases ("MUC"), compared to 111.2 MUC in 2Q04.
- Net sales were Ps. 3,843.9 million in 2Q05, an increase of 2.5% when compared to 2Q04.
- Selling and administrative expenses were reduced by 7% to Ps. 1,054.8 million
- EBITDA\*\* (excluding non-recurring expenses) reached Ps. 1,020.3 million, 9.8% higher than in 2Q04, representing an EBITDA margin of 26.5%.
- Net income increased 2.6% when compared to 2Q04, to Ps. 493.0 million, or Ps. 0.61 per share.

### First Half 2005 (1H05) Highlights:

- Total sales volume\* increased 2.9% in 1H05 to 204.2 MUC, compared to 198.6 MUC in 1H04.
- Net sales declined by 0.7% to Ps. 6,742.5 million in 1H05, when compared to 1H04.
- Operating income (excluding non-recurring expenses) in 1H05 increased by 6.3% when compared to 1H04, to Ps. 1,289.6 million. The operating margin was 19.1% in 1H05 compared to 17.9% in 1H04.
- EBITDA\*\* (excluding non-recurring expenses) increased 1.3% from Ps. 1,597.7 million in 1H04 to Ps. 1,618.1 million in 1H05, representing an EBITDA margin of 24.0%.
- Net income for 1H05 increased by 9.1% to Ps. 820.5 million, or Ps. 1.02 per share, when compared to Ps. 751.7 million reported for 1H04.

\*Total sales volume includes soft drinks and single serve water. It does not include jug water.

\*\*Operating Profit + Depreciation + Goodwill Amortization



**Monterrey, Mexico, July 21, 2005** – Embotelladoras Arca, S.A. de C.V. (“Arca” or “the Company”) (BMV: ARCA), the second-largest *Coca-Cola* bottler in Mexico and Latin America, announced today its unaudited results for the second quarter ended June 30, 2005. All figures are expressed in thousands of constant Mexican pesos as of June 30, 2005.

**Comments from the Chief Executive Officer**

Mr. Francisco Garza Egloff, Arca’s Chief Executive Officer, stated, “The second quarter was characterized by a significant increase in our sales volume and greater profitability of our business, despite what remains an intensely competitive environment with high raw material costs. I am very pleased to report that during the second quarter we reversed the trend in operating income by posting a 15.9% increase with a margin of 22.2%, 260 basis points above the same period last year. This resulted from an improved pricing environment, as well as a reduction in cost per unit case which kept our gross margin practically unchanged when compared to the second quarter of 2004. This is highly satisfactory considering that raw material costs remain high, the trend towards one-way packaging continues to grow and we are now paying royalties for the Joya brand to The Coca-Cola Company.”

**OPERATING RESULTS**

Sales volume in 2Q05 posted a 4.4% increase when compared to 2Q04, reaching a total of 116.1 MUC. This resulted from a more precise execution, the installation of additional vending machines and coolers, favorable weather and the effects of Holy Week as discussed in the 1Q05 Earnings Release. In addition, we continue introducing new products and formats, seeking constant innovation of our portfolio in order to satisfy the needs of our clients and consumers.

**Table 1. SALES SUMMARY (in '000 unit cases)**

	Quarter			Six Months		
	2Q05	2Q04	Var. %	2005	2004	Var. %
<b>Total Soft Drinks *</b>	<b>116,095</b>	<b>111,207</b>	<b>4.4%</b>	<b>204,243</b>	<b>198,573</b>	<b>2.9%</b>

\* Includes single serve water, exports and sales to third parties.

In real terms, the average price per unit case in 2Q05 was Ps. 33.1, representing a decline of 1.8% when compared to Ps. 33.7 reported in 2Q04, but slightly above the Ps. 32.9 reported for 1Q05.

During 2Q05, we continued carrying out selective price adjustments in certain products, presentations and zones, such as the increase in the cola and flavors segments realized in the vending machine channel (from Ps. 4.50 to Ps. 5.00) in certain cities and the increase in the 600 ml presentation (from Ps. 6.00 to Ps. 6.50), as well. In addition, the 12 oz. can was raised from Ps. 4.00 to Ps. 4.50 in the entire Ciudad Juarez market. Furthermore, the 600 ml NR presentation in colas and flavors was reduced from Ps. 6.00 to Ps. 5.50 in the state of Coahuila.

**Table 2. SALES BY SEGMENT (in '000 unit cases)**

	Quarter			Six Months		
	2Q05	2Q04	Var. %	2005	2004	Var. %
<b>Colas</b>	75,249	73,681	2.1%	133,946	133,285	0.5%
<b>Diet Soft Drinks</b>	7,430	6,785	9.5%	13,305	12,367	7.6%
<b>Flavors*</b>	28,523	26,747	6.6%	49,392	46,695	5.8%
<b>Purified Water**</b>	4,087	3,323	23.0%	6,270	5,097	23.0%
<b>Other***</b>	806	672	20.0%	1,330	1,129	17.7%
<b>TOTAL</b>	<b>116,095</b>	<b>111,207</b>	<b>4.4%</b>	<b>204,243</b>	<b>198,573</b>	<b>2.9%</b>

\* Includes mineral water, third party sales and exports of Topo Chico products.

\*\* Does not include 19-liter jug water presentations.

\*\*\* Includes sports drinks, juices, milks and teas.

Cola sales volume reversed its trend by growing 2.1% during 2Q05 reflecting improvements in execution, the introduction of new packages and presentations in certain cities, the launch of *Coca-Cola Citra (Coca-Cola with Lime)*, as well as improved weather conditions and the effects of Holy Week mentioned previously. In particular, Arca introduced *Coca-Cola* in a 435 ml glass returnable bottle with a plastic cap in the city of Saltillo, *Coca-Cola* in 1 liter NR in Culiacan, and 2 liter RET in La Paz, Baja California Sur, with highly satisfactory results.

The diet segment increased 9.5% during 2Q05 as a result of a significant growth in *Coca-Cola Light*, the introduction of *Coca-Cola Citra Light* and the excellent performance of *Topo Chico Sangria Light* and *Topo Chico Toronja (Grapefruit) Light*. In this segment, Arca replaced the 450 ml NR format with a 500 ml NR in Monterrey and Fronteras, and introduced *Coca-Cola Light* in 1 liter NR in the Fronteras region.

The flavors segment increased by 6.6% in 2Q05 due to the expansion of the *Joya* multi-flavor brand to other territories (Coahuila and Chihuahua), and the complementing of regional brands with national brands, such as *Manzana Lift* and *Fresca*. In addition, *Fanta* and *Sprite* performed well in all of our territories in 2Q05, both posting double digit growth. In the case of *Fanta*, its new bottle design called "Splash" has been well accepted by consumers.

To reinforce our flavor offering, we introduced *Fresca Toronja Roja* in the Monterrey, Fronteras and Coahuila regions in 500 ml NR and 355 ml cans, and in Chihuahua, Pacifico Norte and Pacifico Sur in 600 ml NR and 355 ml cans. The 8 oz. mini can was also used for tastings and the innovative 473 ml "Monster Can" was launched as a limited edition item in all zones except Monterrey, while 1-liter NR presentations of *Fanta* and *Sprite* were introduced in the Fronteras region.

*Topo Chico* brand products continued to grow due to their strong brand recognition, greater publicity and increased coverage within Arca's territories, combined with a 13% increase in exports in 2Q05. In particular, *Topo Chico* mineral water posted an increase of close to 18% during 2Q05 as a result of an ad campaign focusing on the younger population and its expansion to all of Arca's territories. Also, *Topo Chico Toronja* doubled its volume in 2Q05 vs. 2Q04 thanks to the launch of the 600 ml and 1.5 liter NR formats. Arca also introduced *Topo Chico Sangria Light* in 355 ml cans in Monterrey and Fronteras, which contributed to its strong performance.

Single serve purified water increased by 23% in 2Q05 due mainly to client incentives to receive volume discounts, as well as the new ways Arca is displaying this product at the point of sale, primarily in the Monterrey and Fronteras zones.

As a result of a greater focus, as well as the implementation of promotions, the new categories segment grew by 20.0% during 2Q05, most notably *Powerade* and *Nestea*.



Jug water reversed its negative trend in sales volume by posting a 2.2% increase in 2Q05 vs. 2Q04 as a result of the restructure of routes and the identification of new clients, greater coordination with soft drink routes, sales force incentives and greater publicity.

During 2Q05, Arca executed various promotions directed at strategic market segments. Among these were:

- **“Every Day is the Day”** (promotion aimed at mothers): 1 glass (4 different designs) in exchange for 2 marked crown caps plus Ps. 5.00. This promotion consists of 3 phases, 2 months per phase (glasses, silverware sets and utensils). The first phase was a complete success with 100% distribution of the giveaways.
- **“Konec-T Coca-Cola”** (aimed mainly at the younger population): By registering the codes that appear on plastic caps at [www.coca-cola.com.mx](http://www.coca-cola.com.mx), participants accumulate points and qualify for prizes, and/or interact with virtual personalities, play soccer and chess on-line to win “morlacos” (points). This promotion is on the 600 ml NR packages of *Coca-Cola*.
- **“Tapipesos”** (in the Mexicali zone): In order to trigger sales of multi-serve packages, both in colas and flavors, Arca is offering Ps. 1 cash rewards in select plastic caps.

**Table 3. SALES BY FORMAT AND SIZE (in '000 unit cases)**

	Quarter				Six Months			
	2Q05	% of total	2Q04	% of total	2005	% of total	2004	% of total
<b>Returnable (R)</b>	47,808	41.2%	52,969	47.6%	86,414	42.3%	95,867	48.3%
<b>Non returnable (NR)</b>	68,287	58.8%	58,238	52.4%	117,830	57.7%	102,706	51.7%
<b>Single serve</b>	61,363	52.9%	61,768	55.5%	107,931	52.8%	111,063	55.9%
<b>Multiple serve</b>	54,732	47.1%	49,439	44.5%	96,313	47.2%	87,510	44.1%

In order to preserve the high mix of single serve presentations, Arca has been carrying out various strategies. Among these are: the renovation of the traditional 12 ounce glass returnable bottle with the 435 ml glass returnable with a plastic cap in certain cities; the introduction of attractively priced packages such as the 500 ml NR, which reduced the price differential vis-à-vis the competition; the installation of vending machines, and various promotions aimed at raising the consumption of single serve products.

### **Cost and expense reduction program**

Continuing with our cost reduction plan and productivity improvements, during the second quarter, two additional distribution centers ceased operations in the Monterrey region, bringing the total to six distribution centers that have been closed in 2005.

At the same time, and in accordance with our strategy of institutional optimization and improvement of our continuing operations, on June 1, 2005 we announced the signing of a contract for the outsourcing of Information Technology (“IT”) infrastructure to EDS for a period of 5 years. The agreement will allow the Company to focus on its core business and will help improve ARCA’s productivity and profitability while maintaining a high level of competitiveness due to the changes in the market. Furthermore, ARCA will have access to world-class resources, capabilities and security, which will enable it to have cutting-edge IT. The agreement includes central computer services, distributed communications,



telecommunications, recovery plans for contingencies and help desk services. EDS will provide its services via its Data Centers in Mexico City and Monterrey.

In addition, ARCA recently signed an agreement to outsource its primary transportation for the operations in the states of Nuevo Leon, Coahuila, Tamaulipas and San Luis Potosi. This agreement covers the entire territory which will enable Arca to divest transportation equipment, reduce maintenance costs, while simultaneously achieving greater flexibility in the transfers between plants and distribution centers.

## FINANCIAL ANALYSIS

### INCOME STATEMENT

Net sales for 2Q05 reached Ps. 3,843.9 million, an increase of 2.5% with respect to the Ps. 3,751.1 million recorded in 2Q04. This increase was a result of 4.4% growth in total volume and a reduction in the average price per case of 1.8% from Ps. 33.7 in 2Q04 to Ps. 33.1 in 2Q05.

During 2Q05, the cost of goods sold per unit case decreased 1.2% from Ps. 16.9 to Ps. 16.7, despite the increases in the cost of PET resin and carbonic gas, the change in the mix towards NR packages and the payment of royalties for the *Joya* brand. Due to the above, the cost of goods sold increased by 2.9% to Ps. 1,935.6 million. The gross margin in 2Q05 was 49.6%, practically in-line with the figure registered in 2Q04.

2Q05 selling expenses decreased 4.7% to Ps. 827.5 million, while administrative expenses decreased 14.3% to Ps. 227.3 million. The reduction in selling expenses as well as administrative expenses was due to the implementation of the cost reduction plan, in addition to, as of January 2005, the adoption of Bulletin B-7 of the Generally Accepted Accounting Principles in Mexico, which allows companies to cease amortizing goodwill and subject themselves to asset impairment tests.

As a result of the above, operating income (excluding non-recurring expenses) for 2Q05 reached Ps. 853.5 million, an increase of 15.9% with respect to 2Q04. Operating margin went from 19.6% in 2Q04 to 22.2% in 2Q05.

EBITDA (excluding non-recurring expenses) increased 9.8%, from Ps. 928.9 million in 2Q04 to Ps. 1,020.3 million in 2Q05, representing a margin of 24.8% and 26.5%, in 2Q04 and 2Q05, respectively.

During 2Q05, non-recurring expenses reached Ps. 9.6 million, mainly allocated towards personnel severance payments from the closing of two distribution centers in Monterrey, as well as the previously mentioned "outsourcing" projects.

The integral cost of financing in 2Q05 was Ps. 36.4 million, compared to an integral financing result of Ps. 5.0 million in 2Q04, mainly derived from a foreign exchange loss given the appreciation of the peso against the dollar.

During 2Q05, other income of Ps. 3.1 million was reported compared to the Ps. 60.9 million registered during the same period of 2004.

Provisions for income tax and employee profit sharing increased 1.6% from Ps. 313.1 million in 2Q04 to Ps. 318.2 million in 2Q05. The effective tax rate was 39.6% and 39.3% for 2Q04 and 2Q05, respectively, while the effective tax rate for 1H05 was 35.4% compared to 40.5% in 1H04.

Net income for 2Q05 increased 2.6% with respect to 2Q04 reaching Ps. 493.0 million or Ps. 0.61 per share, compared to Ps. 480.4 million, or Ps. 0.60 per share, in 2Q04.



## BALANCE SHEET AND CASH FLOW STATEMENT

At June 30, 2005, Arca's cash balance was Ps. 1,998.1 million, while its net cash position was Ps. 449.9 million.

At the Annual Ordinary Shareholders' Meeting, celebrated on April 26, 2005, it was agreed, among various items, to pay a dividend of Ps. 0.80 per share, which was paid on May 12, 2005 totaling approximately Ps. 641 million.

Net operating cash flow decreased by 1.7% in 1H05 primarily due to a lower reduction in working capital vis-à-vis 1H04.

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### **About Arca**

Embotelladoras Arca, S.A. de C.V. produces and sells soft drinks under *The Coca-Cola Company* brand, proprietary brands and third-party brands. Arca was formed in 2002 through the merger of three of the oldest bottlers in Mexico and is now the second-largest bottler in Mexico and Latin America. The Company distributes its products in the northern region of Mexico mainly in the states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora, Sinaloa, Baja California and Baja California Sur.

### **Disclaimer**

This material may contain forward-looking statements regarding Arca and its subsidiaries based on management's expectations. This information as well as statements regarding future events and expectations is subject to risks and uncertainties, as well as factors that could cause the results, performance and achievements of the Company to differ at any time. Such factors include changes in the general economic, political, governmental and commercial conditions both domestically and globally, as well as variations in interest rates, inflation rates, exchange rate volatility, tax rates, the demand for and the price of carbonated beverages, water and ice, taxes on and the price of sugar, the prices of raw materials used in the production of soft drinks, weather conditions and various others. As a result of these risks and factors, actual results could be materially differ from the estimates provided, therefore, Arca does not accept responsibility for any variations or for the information provided by official sources.



## EMBOTELLADORAS ARCA, S. A. DE C. V. AND SUBSIDIARIES

### CONSOLIDATED INCOME STATEMENT

(in thousands of constant Mexican pesos as of June 30, 2005)

	2nd. Quarter		January-June	
	2005	2004	2005	2004
NET SALES	3,843,869	3,751,107	6,742,524	6,786,735
COST OF SALES	(1,935,568)	(1,881,629)	(3,463,776)	(3,388,733)
<b>GROSS PROFIT</b>	<b>1,908,301</b>	<b>1,869,478</b>	<b>3,278,748</b>	<b>3,398,002</b>
	49.6%	49.8%	48.6%	50.1%
SELLING EXPENSES	(827,483)	(867,996)	(1,562,947)	(1,646,235)
ADMINISTRATIVE EXPENSES	(227,285)	(265,207)	(426,181)	(539,112)
<b>OPERATING INCOME (excludes non-recurring expenses)</b>	<b>853,533</b>	<b>736,274</b>	<b>1,289,620</b>	<b>1,212,655</b>
	22.2%	19.6%	19.1%	17.9%
NON-RECURRING EXPENSES	(9,585)	(11,718)	(19,139)	(16,751)
<b>COMPREHENSIVE FINANCIAL RESULT:</b>				
INTEREST EXPENSE, NET	(3,015)	(9,899)	(8,181)	(21,226)
EXCHANGE GAIN (LOSS)	(30,333)	16,364	(29,744)	14,959
MONETARY POSITION GAIN (LOSS)	(3,094)	(1,463)	(2,773)	4,271
	(36,442)	5,002	(40,698)	(1,996)
	807,506	729,559	1,229,783	1,193,908
OTHER INCOME (EXPENSE), NET	3,061	60,859	39,076	62,459
<b>INCOME BEFORE THE FOLLOWING PROVISIONS:</b>	<b>810,568</b>	<b>790,418</b>	<b>1,268,859</b>	<b>1,256,367</b>
	21.1%	21.1%	18.8%	18.5%
PROVISIONS FOR:				
INCOME ASSET TAX	(241,872)	(238,518)	(343,137)	(378,236)
EMPLOYEES' PROFIT SHARING	(76,346)	(74,550)	(106,481)	(130,724)
<b>TOTAL PROVISIONS</b>	<b>(318,218)</b>	<b>(313,069)</b>	<b>(449,618)</b>	<b>(508,960)</b>
EQUITY IN EARNINGS OF AFFILIATES AND MINORITY INTEREST	615	3,097	1,252	4,309
<b>CONSOLIDATED NET INCOME</b>	<b>492,965</b>	<b>480,447</b>	<b>820,493</b>	<b>751,716</b>
DEPRECIATION AND AMORTIZATION OF GOODWILL	166,804	192,590	328,494	385,059
<b>EBITDA (excludes non-recurring expenses)</b>	<b>1,020,337</b>	<b>928,865</b>	<b>1,618,114</b>	<b>1,597,713</b>
<b>EBITDA MARGIN</b>	<b>26.5%</b>	<b>24.8%</b>	<b>24.0%</b>	<b>23.5%</b>
<b>Per Share Data:</b>				
Net Income	0.61	0.60	1.02	0.93
Total number of shares outstanding ('000)	806,020	806,020	806,020	806,020



**EMBOTELLADORAS ARCA, S. A. DE C. V. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

(in thousands of constant Mexican pesos as of June 30, 2005)

	as of June 30,	
	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
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CURRENT ASSETS		
Cash & Cash Equivalents	1,998,077	1,364,116
Accounts receivable, net	508,212	433,174
Other accounts receivable	198,136	427,809
Inventories	845,481	1,012,450
Prepayments	65,899	70,467
<b>Total Current Assets</b>	<b>3,615,805</b>	<b>3,308,016</b>
ACCOUNTS RECEIVABLE - LONG TERM	277,060	372,985
INVESTMENT IN SHARES	122,941	105,004
PROPERTY, PLANT AND EQUIPMENT	7,636,302	7,532,557
GOODWILL, NET	2,036,605	2,101,723
OTHER ASSETS	146,012	197,123
<b>TOTAL ASSETS</b>	<b>13,834,725</b>	<b>13,617,408</b>
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LIABILITIES AND SHAREHOLDERS' EQUITY		
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CURRENT LIABILITIES		
Bank loans	11,195	12,510
Suppliers	718,963	535,308
Other accounts payable and expenses	494,141	716,727
<b>Total Current Liabilities</b>	<b>1,224,299</b>	<b>1,264,545</b>
LONG TERM BANK LOANS	1,536,996	1,618,761
PENSION PLANS AND SENIORITY PREMIUMS	162,934	172,185
DEFERRED INCOME TAX	1,096,548	1,320,966
<b>TOTAL LIABILITIES</b>	<b>4,020,777</b>	<b>4,376,457</b>
SHAREHOLDERS' EQUITY		
Capital Stock	4,856,929	4,856,033
Retained Earnings	4,136,527	3,633,203
Net Profit (Loss)	820,493	751,715
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>9,813,948</b>	<b>9,240,951</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>13,834,725</b>	<b>13,617,408</b>



**EMBOTELLADORAS ARCA, S. A. DE C. V. AND SUBSIDIARIES  
CASH FLOW STATEMENT**

**As of June 30, 2005**

(in thousands of constant Mexican pesos as of June 30, 2005)

	<u>2005</u>	<u>2004</u>
<b>NET INCOME</b>	<b>820,493</b>	<b>751,715</b>
+ DEPRECIATION	314,257	374,427
+ OTHER AMORTIZATIONS	11,853	10,040
+ OTHER	8,332	(17,609)
+ PENSION PLANS AND SENIORITY PREMIU	23,278	15,360
<b>= OPERATING CASH FLOW</b>	<b>1,178,212</b>	<b>1,133,933</b>
<b>- WORKING CAPITAL</b>	<b>(18,520)</b>	<b>(83,265)</b>
<b>= OPERATING CASH FLOW AFTER WORKING CAPITAL NEEDS</b>	<b>1,196,732</b>	<b>1,217,197</b>
- DEBT AMORTIZATION	20,203	(40,266)
- CAPITAL EXPENDITURES (NET)	408,778	409,374
- DIVIDENDS PAID	642,494	588,327
- SHARE REPURCHASE PROGRAM	(74,426)	55,450
<b>= OPERATING CASH FLOW AFTER FIN. AND INVESTING NEEDS</b>	<b>199,684</b>	<b>204,313</b>
<b>CASH BALANCE AT THE BEGINNING OF PERIOD</b>	<b>1,798,394</b>	<b>1,159,803</b>
<b>= CASH BALANCE AT THE END OF PERIOD</b>	<b>1,998,078</b>	<b>1,364,115</b>