



# Earnings Release



ARCA

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## FIRST QUARTER 2006 RESULTS

- Total sales volume grew 11% in 1Q06 vs. 1Q05
- Operating income increased by 41% to Ps. 633 million in 1Q06
- Operating margin rose from 15.0% in 1Q05 to 18.8% in 1Q06

### First Quarter 2006 (1Q06) Highlights:

- In 1Q06, total sales volume\* increased 11.1% to 97.9 million unit cases ("MUC"), compared to 88.1 MUC in 1Q05.
- Net sales were Ps. 3,361 million in 1Q06, an increase of 12.2% when compared to 1Q05.
- Operating income rose 40.5% from Ps. 451 million to Ps. 633 million, representing an operating margin of 18.8%.
- EBITDA\*\* (excluding non-recurring expenses) reached Ps. 807 million, 30.6% higher than in 1Q05, representing an EBITDA margin of 24%.
- Net income up 20% to Ps. 406 million.

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

\*\*Excludes non-recurring expenses

\*\*\*Operating Profit + Depreciation + Goodwill Amortization



**Monterrey, Mexico, April 28, 2006** – 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 first quarter ended March 31, 2006. All figures are expressed in constant Mexican pesos as of March 31, 2006.

### Comments from the Chief Executive Officer

Mr. Francisco Garza Egloff, Arca’s Chief Executive Officer, stated, “The strong growth in volume as well as operating income demonstrates the solidness of our strategy of focusing on satisfying the needs of consumers by offering leading products and brands, a segmented execution at the point of sale and operations that grow more efficient each day.”

He added, “These favorable results motivate us to continue seeking profitable growth opportunities by differentiating our products through innovation in packaging, flavors, formats and excellent service.”

## OPERATING RESULTS

1Q06 sales volume increased 11.1% when compared to 1Q05, reaching a total of 97.9 MUC. This significant increase resulted from the strategies implemented, combined with a more favorable climate in the regions in which we operate. A major part of these strategies focused on triggering sales of single-serve formats through the introduction of new products, combined with innovative promotions oriented to the same segment, in addition to the value-added by our cooler network and the close proximity to our consumers through our vending machines. This has enabled us to slightly increase the sales mix of our single-serve formats from 52.8% to 53.0% year-over-year, in addition to the increases in all segments, strengthening our leadership in the market where we operate.

During 1Q06, we launched the following products:

- Caffeine-free Coca-Cola Light in 310 ml. slim can in all of our territories as well as in 600 ml. NR bottles in Monterrey and the border zones.
- Coca-Cola and Coca-Cola Light in 500 ml. NR under the name “Full Body Mundialista” in all of our territories.
- Coca-Cola “Fridge Pack” with eight (8) 12 oz cans in all of our territories in certain channels.
- Coca-Cola Light in 1 lt. PET NR bottles in Culiacan.
- Manzana Lift in 3 lts. PET NR in La Paz.
- “Six-Pack” of Topo Chico Grapefruit in 600 ml. NR in Monterrey.
- “Twelve Pack” from *Spacio Leve* (diet segment) with twelve (12) 310 ml. cans in six different flavors in the Pacifico Norte and Sur zones.

<b>Table 1. SALES SUMMARY (in '000 unit cases)</b>			
	Quarter		
	1Q06	1Q05	Var. %
<b>Total Volume *</b>	<b>97,913</b>	<b>88,148</b>	<b>11.1%</b>

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

In real terms, the average price per unit case rose 1%, from Ps. 34.0 in 1Q05 to Ps. 34.3 in 1Q06. This resulted from the selective price increases made recently in the majority of our territories in addition to the higher mix of single-serve formats and better pricing due to our segmented execution.

	Table 2. SALES BY SEGMENT (in '000 unit cases)		
	Quarter		
	1Q06	1Q05	Var. %
<b>Colas</b>	64,444	58,697	9.8%
<b>Diet Soft Drinks</b>	6,680	5,876	13.7%
<b>Flavors*</b>	23,337	20,869	11.8%
<b>Purified Water**</b>	2,680	2,183	22.7%
<b>Other***</b>	772	523	47.5%
<b>TOTAL</b>	<b>97,913</b>	<b>88,148</b>	<b>11.1%</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.

During 1Q06, the **colas** segment grew 9.8% to 64.4 MUC. This significant increase was primarily due to the successful launch of various packages introduced recently to close the price gap with competitors, mainly in single-serve presentations. One example is the increased presence of the 1-liter NR introduced previously in various cities and the expansion of the .5-liter NR bottle in most of our territories and channels in which we operate, including vending.

Similarly, the 435 ml. glass returnable package with plastic cap present in several border cities of Tamaulipas and in the state of Coahuila, continues yielding very favorable results by offering a competitively-priced package with a new differentiated image and greater convenience for our consumers. The 2.5-liter REF PET has met its objective of offering a product tailored to the price-sensitive bulk consumer in the cities of Monterrey and Chihuahua.

The **diet** category grew 13.7% during 1Q06, resulting from the strong growth of Coca-Cola Light, the excellent performance of Topo Chico Sangria Light.

The **flavors** segment rose 11.8% in 1Q06 due to the expansion of Joya brand multi-flavor products to other Arca territories as well as the complementing of regional brands with national brands such as Manzana Lift and Fresca. In addition, the Fanta and Sprite brands continued their excellent performance during 1Q06 as a result of the recent promotions aimed at youngsters.

**Topo Chico** mineral water continued its growth trend by posting a 27% increase during 1Q06 thanks to its renowned quality and prestige, as well as greater coverage, and a 25% increase in exports to the U.S.

Single-serve **purified water** grew 22.7% during 1Q06 due to, among other efforts, Arca's new marketing strategies at the point of sale, client incentives and a new image for Ciel brand purified water.

During 1Q06, volume for **new categories** increased 47.5% as a result of the successful launch of Ciel Aquarius brand flavored water, as well as the introduction of various flavors of Ciel Dasani water and Minute Maid.

Arca continues driving the **purified jug water segment** focused on the regions of attractive profitability potential. As a result of the recent measures taken in this business, volume grew 16% during the quarter.

During 1Q06 we launched new promotions aimed at reinforcing single-serve formats, such as the following:

- **Fanta Romance.** Applied to Orange Fanta in 600 ml. NR. This promotion consisted of a contest in which team participants completed a dialogue of a show called “Romance”, posted on the website [www.fanta.com.mx](http://www.fanta.com.mx). The three dialogues to receive the most votes won a trip to a different beach throughout the world.
- **Oscars.** On 600 ml. NR packages of Coca-Cola Light and Caffeine-free Coca-Cola Light. Consisted in a cross-marketing strategy of instant prizes such as movie tickets to various theatres in each region. In addition, by entering game codes found in caps via the internet or cellular text messaging, participants were entered in a sweepstake to win trips to Hollywood and Universal Studios.
- **Coca-Cola World Cup Glasses.** On Coca-Cola products. Consisted of obtaining 1 of 11 different world cup glasses in exchange for 2 plastic caps or 4 crown caps plus Ps. 5. By the end of this promotion, 100% of the glasses were collected.
- **The way things are.** For 500 and 600 ml. NR packages of Sprite. This promotion was aimed mainly at youngsters and consisted of consumers attempting to read 1 of 45 different messages placed on bottle labels by angling the bottles as they drank.
- **World Cup Kbzones.** Applies to Coca-Cola and Coca-Cola Light in 500 and 600 ml. NR and 12 oz. glass returnable presentations. This promotion lasts until May and consists of exchanging 2 plastic caps or 3 crown caps plus Ps. 5 for a plastic figurine representing soccer players and fans.
- **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) which can be used to purchase cell phone ringtones, jerseys and music CDs, among other prizes. This promotion will be permanently available on the 600 ml. NR packages of Coca-Cola.

<b>Table 3. SALES BY FORMAT AND SIZE (in '000 unit cases)</b>				
	<b>Quarter</b>			
	<b>1Q06</b>	<b>% of total</b>	<b>1Q05</b>	<b>% of total</b>
<b>Returnable (R)</b>	36,317	37.1%	38,605	43.8%
<b>Non returnable (NR)</b>	61,596	62.9%	49,543	56.2%
<b>Single serve</b>	51,848	53.0%	46,567	52.8%
<b>Multiple serve</b>	46,065	47.0%	41,581	47.2%

In the information systems area and as part of the Supply Chain Project, we completed the implementation of the Production Planning module PP/DS. This will enable the scheduling of production at all our plants to be linked with SAP’s APO system, thereby enabling us to automatically determine through systems what to produce, where and when, depending on the collaborative demand forecast and existing inventories at the Distribution Centers.



In addition, we began the last phase in the standardization of our commercial system in the Pacifico Norte and Pacifico Sur zones, which will permit us to continue standardizing our operating practices. Additionally, as part of the “Revenue Growth Management” project, we initiated the implementation of our “Automated Sales Force” system in Mexicali and we expect to complete it in the Pacifico Sur zone during 2Q06. We also launched a technology update on our central system platforms which consists of strengthening them with state-of-the-art technology, critical systems from SAP Commercial Systems, thereby taking advantage of the technological capabilities of EDS.

## FINANCIAL ANALYSIS

### INCOME STATEMENT

Net sales in 1Q06 reached Ps. 3,361.3 million which represents an increase of 12.2% when compared to Ps. 2,996.7 million in 1Q05. The average price per unit case in 1Q06 was Ps. 34.3, representing an increase of 1.0% with respect to the average price in 1Q05. This improvement resulted from the selective price increases passed at the end of 2005 and beginning in 2006 in the majority of our territories.

Cost of goods sold in 1Q06 increased by 9.1% when compared to 1Q05, to Ps. 1,723.9 million. Despite the higher mix of one-way packages, the cost per unit case decreased 1.7% from Ps. 17.9 in 1Q05 to Ps. 17.6 in 1Q06, as a result of lower costs of sugar and PET as well as from gains in productivity and discipline in the fixed production costs. Due to the above, the gross margin increased from 47.3% in 1Q05 to 48.7% in 1Q06.

Selling and administrative expenses, as a percentage of sales decreased from 32.2% to 29.9%, year-over-year. Specifically during 1Q06, selling expenses increased 3.6% to Ps. 787.7 million due to a higher sales volume, expenses associated with the launching of new products, new promotions and publicity as well as the new compensation structure to our sales force. On the other hand, administrative expenses rose 5.2% to Ps. 216.4 million, primarily due to higher expenses for fees paid to various service providers.

As a result of the above, operating income increased 40.5% in 1Q06 compared to 1Q05, reaching Ps. 633.2 million. The operating margin improved from 15.0% in 1Q05 to 18.8% in 1Q06.

EBITDA rose 30.6% from Ps. 618.0 million in 1Q05 to Ps. 807.1 million in 1Q06, representing an margin of 24%.

Non-recurring expenses were Ps. 12.1 million in 1Q06, mainly allocated towards severance payments, compared to Ps. 9.9 million registered in 1Q05.

The integral financing income in 1Q06 was Ps. 15.7 million, compared to an integral cost of financing of Ps. 4.4 million reported in 1Q05. This was mainly due to the increase in financial products generated by a greater level of cash and temporary investments as well as a favorable exchange rate result.

During 1Q06 Arca registered other income of Ps. 3.0 million compared with Ps. 37.2 million reported in 1Q05. It is worth noting that 1Q05 results included other income stemming from the difference between the calculation of Arca’s 2004 taxes and the estimated tax provisions in the financial statements for that period.



In 1Q06, provisions for Income Tax and Employee Profit Sharing were Ps. 233.4 million, representing an effective tax rate of 36.5% compared to Ps. 135.8 million or 28.7% in 1Q05.

Arca's net income for 1Q06 reached Ps. 406.3 million or Ps. 0.50 per share, reflecting its strong operating performance and solid financial structure.

### **BALANCE SHEET AND STATEMENT OF CHANGES IN FINANCIAL POSITION**

As of March 31, 2006, Arca had Ps. 2,578.6 million in cash and Ps. 1,543.2 million in debt, resulting in a net cash position of Ps. 1,035.4 million. It is worth noting that on April 18, 2006, a dividend of Ps. 0.85 per share was paid for a total of Ps. 685 million.

Net operating cash flow rose 58.3% during 1Q06 due to improved operating results and a disciplined use of working capital, mainly reflected in a reduction of inventories and accounts receivable.

Investment in fixed assets during 1Q06 was Ps. 172.1 million, allocated mainly towards increasing production capacity of non-returnable products in the Northeast, construction of facilities to accommodate supplier's bottle injection and blowing equipment, maintenance of equipment and regular replacement of coolers as well as the installation of additional coolers and vending machines.

### **RECENT EVENTS**

As part of the new program to reduce costs and expenses, in February 2006 one Distribution Center was rationalized and its operations were merged into a larger one.

On April 4, 2006, the General Ordinary Shareholders' Meeting of Embotelladoras Arca, S.A. de C.V. was held in Ciudad Juarez, Chihuahua, during which a dividend of Ps. 0.85 per share, paid on April 18, 2006, was approved among other items.

With regard to the transaction announced on February 3, 2006, Arca informs that it continues its negotiations with the majority shareholders of Grupo Herdez (BMV: "HERDEZ"; ADR I: "GUZBY") (or "Herdez") with the intention that Arca obtains a significant ownership stake and certain rights regarding the decision-making process at Herdez. Arca is committed to achieving the most satisfactory conditions for its shareholders.

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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 2001 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. Arca also exports Topo Chico brand products to the U.S.

For more information, visit ARCA's website at [www.e-arca.com.mx](http://www.e-arca.com.mx).

#### **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 March 31, 2006)

	<b>1st. Quarter</b>	
	<b>2006</b>	<b>2005</b>
NET SALES	3,361,302	2,996,672
COST OF SALES	<u>(1,723,940)</u>	<u>(1,579,884)</u>
GROSS PROFIT	1,637,362 48.7%	1,416,788 47.3%
SELLING EXPENSES	(787,729)	(760,334)
ADMINISTRATIVE EXPENSES	<u>(216,409)</u>	<u>(205,621)</u>
OPERATING INCOME (excludes non-recurring expenses)	633,223 18.8%	450,833 15.0%
NON-RECURRING EXPENSES	<u>(12,069)</u>	<u>(9,877)</u>
COMPREHENSIVE FINANCIAL RESULT:		
INTEREST EXPENSE, NET	8,134	(5,342)
EXCHANGE GAIN (LOSS)	10,480	609
MONETARY POSITION GAIN (LOSS)	<u>(2,865)</u>	<u>332</u>
	<u>15,749</u>	<u>(4,400)</u>
	636,904	436,556
OTHER INCOME (EXPENSE), NET	<u>3,027</u>	<u>37,232</u>
INCOME BEFORE THE FOLLOWING PROVISIONS:	639,931 19.0%	473,788 15.8%
PROVISIONS FOR:		
INCOME ASSET TAX	(186,500)	(104,689)
EMPLOYEES' PROFIT SHARING	<u>(46,902)</u>	<u>(31,153)</u>
TOTAL PROVISIONS	<u>(233,402)</u>	<u>(135,843)</u>
EQUITY IN EARNINGS OF AFFILIATES AND MINORITY INTEREST	(222)	658
<b>CONSOLIDATED NET INCOME</b>	<b>406,307</b>	<b>338,603</b>
DEPRECIATION AND AMORTIZATION	173,888	167,157
<b>EBITDA (excludes non-recurring expenses)</b>	<b>807,111</b>	<b>617,991</b>
<b>EBITDA MARGIN</b>	<b>24.0%</b>	<b>20.6%</b>
<b>Per Share Data:</b>		
Net Income	0.50	0.42
Total number of shares outstanding ('000)	806,020	806,020



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

CONSOLIDATED BALANCE SHEET

(in thousands of constant Mexican pesos as of March 31, 2006)

	as of March 31,	
	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & Cash Equivalents	2,578,618	2,200,485
Accounts receivable, net	508,061	427,450
Other accounts receivable	226,609	214,245
Inventories	819,719	880,706
Prepayments	72,753	80,678
<b>Total Current Assets</b>	<b>4,205,760</b>	<b>3,803,564</b>
ACCOUNTS RECEIVABLE - LONG TERM	226,005	295,145
INVESTMENT IN SHARES	123,362	107,129
PROPERTY, PLANT AND EQUIPMENT	7,949,852	7,815,773
GOODWILL, NET	2,120,490	2,103,102
OTHER ASSETS	315,758	154,551
<b>TOTAL ASSETS</b>	<b>14,941,227</b>	<b>14,279,264</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Bank loans	11,360	12,079
Suppliers	637,177	555,001
Other accounts payable and expenses	617,005	623,797
<b>Total Current Liabilities</b>	<b>1,265,542</b>	<b>1,190,877</b>
LONG TERM BANK LOANS	1,531,860	1,597,526
PENSION PLANS AND SENIORITY PREMIUMS	297,071	158,605
DEFERRED INCOME TAX AND OTHERS	1,039,981	1,118,306
<b>TOTAL LIABILITIES</b>	<b>4,134,454</b>	<b>4,065,314</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock	5,024,735	5,020,517
Retained Earnings	5,375,731	4,854,832
Net Profit (Loss)	406,307	338,601
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>10,806,773</b>	<b>10,213,950</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>14,941,227</b>	<b>14,279,264</b>



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

**As of March 31, 2006**

(in thousands of constant Mexican pesos as of March 31, 2006)

	<u>2006</u>	<u>2005</u>
<b>NET INCOME</b>	<b>406,307</b>	<b>338,603</b>
+ DEPRECIATION AND AMORT.	174,698	172,932
+ OTHER	(15,518)	(6,711)
+ PENSION PLANS AND SENIORITY PREMIU	5,904	14,228
<b>= OPERATING CASH FLOW</b>	<b>571,391</b>	<b>519,052</b>
<b>- WORKING CAPITAL</b>	<b>(242,880)</b>	<b>4,707</b>
<b>= OPERATING CASH FLOW AFTER WORKING CAPITAL NEEDS</b>	<b>814,271</b>	<b>514,345</b>
- DEBT AMORTIZATION	11,797	11,823
- CAPITAL EXPENDITURES (NET)	172,119	158,059
- SHARE REPURCHASE PROGRAM	18,987	3,183
<b>= OPERATING CASH FLOW AFTER FIN. AND INVESTING NEEDS</b>	<b>611,368</b>	<b>341,280</b>
<b>CASH BALANCE AT THE BEGINNING OF PERIOD</b>	<b>1,967,250</b>	<b>1,859,206</b>
<b>= CASH BALANCE AT THE END OF PERIOD</b>	<b>2,578,618</b>	<b>2,200,486</b>