



# Earnings Release



ARCA

## IR Contacts:

### In Monterrey:

Carlos Beltrán del Río M.

E-mail: carlos.beltran@e-arca.com.mx

Alberto Guajardo

E-mail: alberto.guajardo@e-arca.com.mx

Investor Relations

Tel: (528) 18 151-1443 or

18 151-1400 Ext. 1311

### In New York:

Melanie Carpenter

Maria Barona

i-advize Corporate Communications

Tel: (212) 406-3692

Email: arca@i-advize.com

## SECOND QUARTER 2007 RESULTS

- Net sales rose 4.1% in 2Q07 vs 2Q06.
- Volume rose 1.1% in 2Q07.
- Net income increased 3.6% in 1H07.

### Second Quarter 2007 (2Q07) Highlights:

- In 2Q07, total sales volume\* increased 1.1% to 128.9 million unit cases ("MUC") from 127.5 MUC in 2Q06.
- Net sales were Ps. 4,818.5 million in 2Q07, an increase of 4.1% when compared to 2Q06.
- Operating income decreased 5.3% to Ps. 1,060.9 million, representing an operating margin of 22.0%.
- EBITDA\*\* reached Ps. 1,252.3 million, 3.9% lower than in 2Q06, representing an EBITDA margin of 26.0%.
- Net income increased 3.1% when compared to 2Q06, to Ps. 768.7 million.

### First Half 2007 (1H07) Highlights:

- Total sales volume\* increased 1.5% in 1H07 vs 1H06 to 228.8 MUC.
- Net sales grew 5.9% to Ps. 8,600.8 million in 1H07 vs 1H06.
- Operating income in 1H07 decreased by 5.0% when compared to 1H06, to Ps. 1,690.0 million. The operating margin was 19.6% in 1H07 compared to 21.9% in 1H06.
- EBITDA\*\* decreased 2.8% from Ps. 2,141.3 million in 1H06 to Ps. 2,080.5 million in 1H07, representing an EBITDA margin of 24.2%.
- Net income for 1H07 reached Ps. 1,210.0 million, or Ps. 1.50 per share, when compared to Ps. 1,167.7 million reported for 1H06.

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

\*\*Operating Income + Depreciation + Amortization



**Monterrey, Mexico, July 20, 2007** – Embotelladoras Arca, S.A.B. 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, 2007. All figures are expressed in thousands of constant Mexican pesos as of June 30, 2007.

### Comments from the Chief Executive Officer

Mr. Francisco Garza Egloff, Arca’s Chief Executive Officer, stated, “Arca maintained a positive sales performance, despite very tough comps for the first half of 2006. This was the result of constant product innovation and more accurate segmented execution, which allowed us to strengthen our presence in all channels.”

He added, “The competitive environment permitted us to make some price adjustments in the main cities along the Pacific coast. Furthermore, the anticipated purchases and the downward trend in sugar prices, coupled with a strict expense controls are beginning to show in the results, reflected in operating profit growth in the soft drink business during June.”

## OPERATING RESULTS

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

	Quarter			Six Months		
	2Q07	2Q06	Var. %	2007	2006	Var. %
<b>Total Volume *</b>	<b>128,873</b>	<b>127,524</b>	<b>1.1%</b>	<b>228,786</b>	<b>225,437</b>	<b>1.5%</b>

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

Sales volume increased 1.1% in 2Q07 compared to 2Q06, reaching a total of 128.9 MUC. This growth was achieved considering the 10% increase experienced in 2Q06 vs. 2Q05.

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

	Quarter			Six Months		
	2Q07	2Q06	Var. %	2007	2006	Var. %
<b>Colas</b>	81,197	81,692	-0.6%	145,136	146,136	-0.7%
<b>Diet Soft Drinks</b>	10,382	8,111	28.0%	19,523	14,791	32.0%
<b>Flavors*</b>	30,321	31,486	-3.7%	52,757	54,824	-3.8%
<b>Purified Water**</b>	5,177	4,940	4.8%	8,292	7,620	8.8%
<b>Other***</b>	1,795	1,295	38.6%	3,077	2,067	48.9%
<b>TOTAL</b>	<b>128,873</b>	<b>127,524</b>	<b>1.1%</b>	<b>228,786</b>	<b>225,437</b>	<b>1.5%</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 2Q07, colas declined 0.6% to 81.2 MUC while the flavored segment decreased 3.7%. A major factor behind this contraction was the unfavorable weather as well as a difficult comparison base resulting from the special events that took place during the second quarter of 2006, such as the elections and the World Soccer Championship.

The diet beverage category increased 28.0% during 2Q07, as a result of the successful launching of Coca-Cola Zero in its various presentations.



During 2Q07, the volume of new categories increased 38.6%, resulting from the recent launchings of Minute Maid juices in its different presentations (Forte, Revita y Nutri+), the introduction of Powerade Light at the beginning of the year and the solid performance of Nestea.

Purified water in a single-serve format grew 4.8% in 2Q07, while the jug format increased 1.1% during the quarter.

During 2Q07, the following product launchings took place:

- Caffeine Free Coca-Cola Light in a 12 oz glass returnable bottle.
- Coca-Cola Zero in 2.5-liter NR PET.
- Sprite Zero in various formats.
- Topo Chico Sangria expanded to Coahuila and Chihuahua.
- Fresca Verde 1-liter Returnable, 2-liter NR PET, 600 ml NR PET and 12 and 8 oz cans in the Pacific zone.
- Fresca Lado B in a 12 oz can, 600 ml, 2 and 2.5-liter NR PET.
- Ciel single serve bottled water in Coahuila and Sinaloa, alongside SierrAzul brand products.
- Nestea Light 600 ml NR PET.

During 2Q07, we launched the following promotions:

- **Bokaditas (snacks)** – With the purchase of 1 Coca-Cola or flavored CSD in 2 liter or 2.5 liter returnable, consumers receive one free 75g of Bokaditas.
- **Tags Coca-Cola** – With the purchase of 1 Coca-Cola or Coca-Cola Zero 600 ml NR or 500 ml NR plus Ps. 5, consumers receive a free Coca-Cola tag.
- **Fanta Games** – There is a code located on the Fanta 600 ml. plastic cap, which when sent via short message, allows the consumer to download games and participate in raffles for other prizes.
- **You are the Jersey** – Consists of creating a virtual soccer jersey for the Mexican National Team using pictures of fans that are submitted on the website [www.lacamisetaerestu.com.mx](http://www.lacamisetaerestu.com.mx). Prizes include t-shirts autographed by the actual players and two trips to the Americas Cup finals.

Table 3. SALES BY FORMAT AND SIZE (in '000 unit cases)								
	Quarter				Six Months			
	2Q07	% of total	2Q06	% of total	2007	% of total	2006	% of total
<b>Returnable (R)</b>	41,228	32.0%	45,259	35%	74,016	32%	81,576	36%
<b>Non returnable (NR)</b>	87,645	68.0%	82,265	65%	154,770	68%	143,861	64%
<b>Single serve</b>	64,379	50.0%	65,925	52%	115,362	50%	117,773	52%
<b>Multiple serve</b>	64,494	50.0%	61,600	48%	113,423	50%	107,664	48%

In terms of projects, ARCA is in the process of updating its SAP platform to version MySAP ERP 6.0. Once installed, this more robust platform will allow us to advance on key initiatives such as WMS (Warehouse Management System), CRM (Customer Relationship Management) and DSD (Direct Store Delivery) and simultaneously reduce maintenance costs. This update will be done on ARCA's mainframe and will immediately benefit all of the Company's plants and distribution centers.

On other IT improvements, we completed the first phase of the Tracking Project at Topo Chico that will enable us to improve quality standards while optimizing inventory controls and rotation to increase efficiency in the supply chain. Through these actions, Arca will also become compliant with new US FDA regulations by improving export product identification, linking raw material received with finished product lots.



Furthermore, we continued expanding and improving our telemarketing services through the incorporation of new state-of-the-art technology platforms for call centers and voice over IP, which are major factors in the standardization of our new phone sales model implemented in several territories. These new capabilities will make Arca more efficient in its marketing efforts while reducing expenses by optimizing its pre-sale routes.

Lastly, we launched our "e-collaboration" initiative aimed at strengthening our client relationships within the supermarket and convenience store channels. By implementing the latest technology and new retail industry requirements, Arca will improve its production planning process and promotions, reduce stock outs and improve inventory management and product identification, while automating catalog updates.

## FINANCIAL ANALYSIS

### INCOME STATEMENT

Net sales for 2Q07 reached Ps. 4,818.5 million, which represents an increase of 4.1% with respect to the Ps. 4,629.3 million reported in 2Q06. Bokados represented approximately 80% of this variation. Sales volume of soft drinks and single serve bottled water increased 1.1% with stable prices compared to the same period last year. The average price per unit case remained flat year-over-year.

During 2Q07, cost of goods sold increased 5.6% when compared to 2Q06 (2.4% excluding Bokados) while the gross margin was 49.0% compared to 49.7% in 2Q06. Despite the rise in concentrate costs, sugar prices and a higher mix of non-returnable products, the average price per unit case (excluding cost of goods sold for Bokados) increased only 1.4% when compared to 2Q06.

Selling and administrative expenses rose 10.1% (5.2% excluding Bokados). Specifically, during 2Q07, selling expenses grew 12.9% (7.1% excluding Bokados) due to increases in the sales structure in distribution as well as vending, higher expenses for the launching of Coca-Cola Zero, and greater maintenance and depreciation expenses for distribution equipment. However, administrative expenses remained practically unchanged at Ps. 248.3 million (with a 2.0% reduction excluding Bokados).

As a result of the above, operating income for 2Q07 decreased 5.3% (7.4% excluding Bokados) when compared to 2Q06, with an operating margin of 22.0%. EBITDA declined 3.9% (6.4% excluding Bokados) representing an EBITDA margin of 26.0% (26.2% excluding Bokados). Notably, during the month of June, Arca saw a reverse in the trends of the previous five months, therefore registering growth in EBITDA margin.

The integral cost of financing was Ps. 22.4 million in 2Q07, compared to an integral financing result of Ps. 21.4 million in 2Q06. This was mainly due to the appreciation of the peso during 2T07 compared to a depreciation in 2T06, taking into account that Arca held a long dollar position during both periods. As a result, Arca has been unwinding its position in dollars in order to reduce the volatility of this line item. In addition, interest income declined in 2Q07 vs. 2Q06 due to a lower cash balance.

During 2Q07, other income of Ps. 34.4 million was reported mainly related to tax refunds for the deduction of employee profit sharing of previous years, as well as profits on the sale of non-strategic assets, among others.

Provisions for income tax and employee profit sharing were Ps. 299.5 million in 2Q07, representing an effective tax rate of 27.9%, compared to Ps. 382.0 million or 33.9% in 2Q06. This is the result of applying tax incentives as well as accelerated depreciation of some capital expenditures.

Arca reported net income of Ps. 768.7 million for 2Q07, or Ps. 0.95 per share. Net income for 1H07, grew by 3.6% reaching Ps. 1,210.0 million or Ps. 1.50 per share.

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## BALANCE SHEET AND CASH FLOW STATEMENT

At June 30, 2007, Arca's cash balance was Ps. 2,357.6 million and its debt totaled Ps. 1,527.0 million for a net cash position was Ps. 830.6 million.

Arca's cash balance declined Ps. 127.9 million from December 2006 to January 2007. This was mainly a result of the temporary increase in working capital, dividend payments, share repurchases and greater investments, including the acquisition of a majority stake in Bokados. With regard to working capital, during 2Q07 we continued making advanced purchases of sugar in order to get competitive prices and secure procurement for the coming months.

We also have a tax return generated by higher provisional payments recorded in 2Q07, which we will reverse in the second half of the year. Furthermore, a Ps. 0.90 cash dividend per share was paid, for a total of approximately Ps. 725 million.

Investments in fixed assets during 1H07 reached Ps. 825 million, allocated mainly towards increasing capacity of one-way products in the Eastern zone, construction of bottle injection and blowing equipment, regular maintenance and replacement of plants and equipment, the installation of additional vending machines and coolers, as well as the acquisition of a controlling stake in Bokados.

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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.

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**EMBOTELLADORAS ARCA, S. A. B. DE C. V. AND SUBSIDIARIES**  
**CONSOLIDATED INCOME STATEMENT**

(in thousands of constant Mexican pesos as of June 30, 2007)

	2nd. Quarter		Variation %	January-June		Variation %
	2007	2006		2007	2006	
NET SALES	4,818,535	4,629,276	4.1%	8,600,776	8,119,552	5.9%
COST OF SALES	(2,458,822)	(2,328,856)	5.6%	(4,421,885)	(4,118,943)	7.4%
GROSS PROFIT	2,359,713	2,300,420	2.6%	4,178,891	4,000,609	4.5%
	49.0%	49.7%		48.6%	49.3%	
SELLING EXPENSES	(1,050,478)	(930,679)	12.9%	(2,003,007)	(1,748,634)	14.5%
ADMINISTRATIVE EXPENSES	(248,287)	(248,929)	-0.3%	(485,901)	(473,642)	2.6%
OPERATING INCOME (excludes non-recurring expenses)	1,060,948	1,120,812	-5.3%	1,689,983	1,778,333	-5.0%
	22.0%	24.2%		19.6%	21.9%	
NON-RECURRING EXPENSES	-	(7,306)	NA	-	(19,837)	NA
COMPREHENSIVE FINANCIAL RESULT:						
INTEREST EXPENSE, NET	(8,042)	2,591	NA	(8,390)	11,039	NA
EXCHANGE GAIN (LOSS)	(13,258)	19,642	NA	(3,533)	30,525	NA
MONETARY POSITION GAIN (LOSS)	(1,120)	(822)	36.3%	(6,411)	(3,798)	68.8%
	(22,420)	21,411	NA	(18,334)	37,766	NA
	1,038,528	1,134,917	-8.5%	1,671,649	1,796,262	-6.9%
OTHER INCOME (EXPENSE), NET	34,447	(6,915)	NA	73,515	(3,774)	NA
INCOME BEFORE THE FOLLOWING PROVISIONS:	1,072,975	1,128,002	-4.9%	1,745,164	1,792,488	-2.6%
	22.3%	24.4%		20.3%	22.1%	
PROVISIONS FOR:						
INCOME TAX	(268,585)	(300,782)	-10.7%	(429,516)	(494,438)	-13.1%
EMPLOYEES' PROFIT SHARING	(30,924)	(81,262)	-61.9%	(88,326)	(129,964)	-32.0%
TOTAL PROVISIONS	(299,509)	(382,044)	-21.6%	(517,842)	(624,402)	-17.1%
EQUITY IN EARNINGS OF AFFILIATES AND MINORITY INTEREST	(4,775)	(157)	NA	(17,357)	(388)	NA
<b>CONSOLIDATED NET INCOME</b>	<b>768,691</b>	<b>745,801</b>	3.1%	<b>1,209,965</b>	<b>1,167,698</b>	3.6%
DEPRECIATION AND AMORTIZATION	191,351	182,586	4.8%	390,528	363,146	7.5%
<b>EBITDA (excludes non-recurring expenses)</b>	<b>1,252,299</b>	<b>1,303,398</b>	-3.9%	<b>2,080,511</b>	<b>2,141,479</b>	-2.8%
<b>EBITDA MARGIN</b>	<b>26.0%</b>	<b>28.2%</b>		<b>24.2%</b>	<b>26.4%</b>	
<b>Per Share Data:</b>						
Net Income	0.95	0.93	3.1%	1.50	1.45	3.6%
Total number of shares outstanding ('000)	806,020	806,020		806,020	806,020	



**EMBOTELLADORAS ARCA, S. A. B. DE C. V. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**

(in thousands of constant Mexican pesos as of June 30, 2007)

	<b>as of June 30,</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>ASSETS</b>		
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CURRENT ASSETS		
Cash & Cash Equivalents	2,357,551	2,795,702
Accounts receivable, net	773,109	721,579
Other accounts receivable	347,305	146,777
Inventories	1,191,269	959,354
Prepayments	106,657	59,868
<b>Total Current Assets</b>	<b>4,775,891</b>	<b>4,683,280</b>
ACCOUNTS RECEIVABLE - LONG TERM	0	222,868
INVESTMENT IN SHARES	84,513	129,393
PROPERTY, PLANT AND EQUIPMENT	8,882,376	8,270,413
GOODWILL, NET	2,340,218	2,203,119
OTHER ASSETS	621,819	330,158
<b>TOTAL ASSETS</b>	<b>16,704,817</b>	<b>15,839,231</b>
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LIABILITIES AND SHAREHOLDERS' EQUITY		
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CURRENT LIABILITIES		
Bank loans	12,321	12,340
Suppliers	986,266	840,693
Other accounts payable and expenses	525,033	776,728
<b>Total Current Liabilities</b>	<b>1,523,620</b>	<b>1,629,761</b>
LONG TERM BANK LOANS	1,514,644	1,589,488
LABOR OBLIGATIONS	289,843	333,244
DEFERRED INCOME TAX AND OTHERS	1,272,043	1,080,601
<b>TOTAL LIABILITIES</b>	<b>4,600,150</b>	<b>4,633,094</b>
SHAREHOLDERS' EQUITY		
Minority interest	331,151	156
Capital Stock	5,244,324	5,217,880
Retained Earnings	5,319,227	4,820,402
Net Profit	1,209,965	1,167,699
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>12,104,667</b>	<b>11,206,137</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>16,704,817</b>	<b>15,839,231</b>



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

**As of June 30, 2007**

(in thousands of constant Mexican pesos as of June 30, 2007)

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>NET INCOME</b>	<b>1,209,965</b>	<b>1,167,698</b>
+ DEPRECIATION AND AMORT.	413,096	412,161
+ OTHER	(21,943)	(15,362)
+ PENSION PLANS AND SENIORITY PREMIUMS	63,222	30,904
<b>= OPERATING CASH FLOW</b>	<b>1,664,340</b>	<b>1,595,401</b>
<b>- WORKING CAPITAL</b>	<b>95,883</b>	<b>(334,594)</b>
<b>= OPERATING CASH FLOW AFTER WORKING CAPITAL NEEDS</b>	<b>1,568,457</b>	<b>1,929,995</b>
- DEBT AMORTIZATION	14,738	12,889
- CAPITAL EXPENDITURES (NET)	824,353	429,857
- DIVIDENDS PAID	722,695	710,505
- SHARE REPURCHASE PROGRAM	134,580	23,776
<b>= OPERATING CASH FLOW AFTER FIN. AND INVESTING NEEDS</b>	<b>(127,909)</b>	<b>752,968</b>
<b>CASH BALANCE AT THE BEGINNING OF PERIOD</b>	<b>2,485,460</b>	<b>2,042,734</b>
<b>= CASH BALANCE AT THE END OF PERIOD</b>	<b>2,357,551</b>	<b>2,795,702</b>

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