



# Earnings Release



ARCA

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## THIRD QUARTER 2005 RESULTS

- Total sales volume grew 5.3% in 3Q05.
- Operating income increased 13.6%.

### Third Quarter 2005 (3Q05) Highlights:

- In 3Q05, total sales volume\* increased 5.3% to 124.9 million unit cases ("MUC"), compared to 118.7 MUC in 3Q04.
- Net sales were Ps. 4,138.7 million in 3Q05, an increase of 3.7% when compared to 3Q04.
- Selling and administrative expenses were reduced by 5.0% to Ps. 1,116.3 million
- EBITDA\*\* (excluding non-recurring expenses) reached Ps. 1,100.5 million, 7.6% higher than in 3Q04, representing an EBITDA margin of 26.6%.

### First Nine Months 2005 (9M05) Highlights:

- Total sales volume\* increased 3.8% in 9M05 to 329.2 MUC, compared to 317.3 MUC in 9M04.
- Net sales rose 1.1% to Ps. 10,946.4 million in 9M05, when compared to 9M04.
- Operating income (excluding non-recurring expenses) in 9M05 increased by 9.4% when compared to 9M04, to Ps. 2,238.1 million. The operating margin was 20.4% in 9M05 compared to 18.9% in 9M04.
- EBITDA\*\* (excluding non-recurring expenses) increased 3.9% from Ps. 2,632.6 million in 9M04 to Ps. 2,734.2 million in 9M05, representing an EBITDA margin of 25.0%.
- Net income for 9M05 increased by 1.3% to Ps. 1,426.0 million, or Ps. 1.77 per share, when compared to Ps. 1,408.2 million reported for 9M04.

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

\*\*Operating Profit + Depreciation + Goodwill Amortization



**Monterrey, Mexico, October 28, 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 third quarter ended September 30, 2005. All figures are expressed in thousands of constant Mexican pesos as of September 30, 2005.

### Comments from the Chief Executive Officer

Mr. Francisco Garza Egloff, Arca’s Chief Executive Officer, stated, “I am very pleased to report strong results for the third quarter which reflect our competitive strengths and leadership within the soft drink market. The sales volume reached in the third quarter was the highest we have had in several years.

Despite the sharp price increases in several of our raw materials, we were able to improve our operating margin. This reflects our focus on our clients and consumers as well as the continuous efforts of our personnel, committed to seeking new ways to serve our market and create value for our shareholders each and every day.”

## OPERATING RESULTS

Sales volume in 3Q05 reached a historical high, posting a 5.3% increase when compared to 3Q04, reaching a total of 124.9 MUC. This resulted from a more precise execution at the point of sale, the constant launch of new products in our territories, the installation of additional vending machines and coolers, and more favorable weather in the regions in which we operate.

During 3Q05, Arca launched the following products:

- In the cola segment, we introduced *Coca-Cola* in 1-liter NR in Ciudad Juarez and *Coca-Cola* in 435 ml. glass returnable with plastic cap in the city of Matehuala. This last one has proven to be a presentation highly-accepted by our consumers, which has helped drive sales of single-serve returnable packages.
- In August, we launched with tremendous success the “*Lata Regia*” (or “Monster Can”), for a limited time, in 473 ml. at a price of Ps. 5.00 exclusively in the city of Monterrey.
- In the flavors segment, we introduced *Fanta* and *Sprite* in 1-liter NR format in the Pacifico Sur region. In addition, we continued expanding products of the multi-flavor brand *Joya* in practically all of our territories.
- A new line of low calorie beverages called “*Spacio Leve*” (Light Space) (consisting of *Coca-Cola Light*, *Coca-Cola Light with Lime*, *Sprite Zero*, *Lift Light*, *Fanta Free*, *Fresca 1*, *Ciel Aquarius* in Jamaica flavor and *Nestea Light*), in all of our territories in 310 ml. cans at a price of Ps. 5.0.
- *Ciel Aquarius*, a zero calorie flavored water, in three flavors (Grapefruit Pulp, Jamaica Sun and Lemon Essence) in non-returnable 600 ml. and 1.5 liter presentations at a price of Ps. 7.00 and Ps. 11.00, respectively.

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

	Quarter			Nine Months		
	3Q05	3Q04	Var. %	2005	2004	Var. %
<b>Total Volume *</b>	<b>124,916</b>	<b>118,681</b>	<b>5.3%</b>	<b>329,159</b>	<b>317,254</b>	<b>3.8%</b>

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

The average price per unit case in 3Q05 was Ps. 33.1, which represents a reduction of 1.4% when compared to Ps. 33.6 reported in 3Q04 and practically unchanged from the average price in 2Q05. During 3Q05, Arca made selective price increases and had greater discipline in the promotions and discounts given to vendors.

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

	Quarter			Nine Months		
	3Q05	3Q04	Var. %	2005	2004	Var. %
<b>Colas</b>	80,617	78,251	3.0%	214,562	211,536	1.4%
<b>Diet Soft Drinks</b>	7,665	7,066	8.5%	20,970	19,433	7.9%
<b>Flavors*</b>	30,914	28,947	6.8%	80,306	75,642	6.2%
<b>Purified Water**</b>	4,600	3,615	27.2%	10,870	8,712	24.8%
<b>Other***</b>	1,120	801	39.8%	2,450	1,931	26.9%
<b>TOTAL</b>	<b>124,916</b>	<b>118,681</b>	<b>5.3%</b>	<b>329,159</b>	<b>317,254</b>	<b>3.8%</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.

The cola segment continues the growth trend experienced in the previous quarter by growing 3% in 3Q05 due mainly to better execution at the point of sale, the segmented introduction of new packages and presentations in certain cities, as well as better climate conditions.

Similarly, the diet segment increased 8.5% during 3Q05 as a result of the growth in *Coca-Cola Light*, the excellent performances of *Topo Chico Sangria Light* and *Topo Chico Toronja* (Grapefruit) *Light*, as well as the introduction of "Spacio Leve", as mentioned above.

The flavors segment increased by 6.8% in 3Q05 due to the previously-mentioned expansion of the *Joya* multi-flavor brand to all of Arca's territories and the complementing of regional brands with national brands, such as *Manzana Lift* and *Fresca*. In addition, *Fanta* and *Sprite* continued to perform well in all of our territories in 3Q05.

*Topo Chico* brand products continued to post double-digit growth due to their strong brand recognition, greater coverage and publicity within Arca's territories, combined with a 28% increase in exports in 3Q05. *Topo Chico* mineral water posted an increase of close to 20% during 3Q05 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* in 600 ml. and 1.5 liter NR formats doubled its volume during 3Q05 when compared to 3Q04.

Single serve purified water registered an increase of 27% in 3Q05 due mainly to innovative marketing tools at the point of sale combined with incentives for vendors and greater demand resulting from high temperatures recorded in the regions in which we operate.

During 3Q05, sales volume of new categories increased by close to 40% primarily due to the strong performance of *Powerade* and the successful launch of the flavored water *Ciel Aquarius*, mentioned above.

Jug water sales volume increased by 3.9% in 3Q05 vs. 3Q04 as a result of the structural changes recently implemented in this business.



During 3Q05, Arca executed various promotions directed at strategic market segments. Among these were:

- **“Every Day is the Day”**: A promotion aimed at mothers of the household whereby in exchange for 2 marked plastic caps plus Ps. 5.00, consumers can purchase kitchen utensils. To date, over 90% of the giveaways have been distributed.
- **“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 is available on the 600 ml. NR packages of *Coca-Cola*.

Table 3. SALES BY FORMAT AND SIZE (in '000 unit cases)								
	Quarter				Nine Months			
	3Q05	% of total	3Q04	% of total	2005	% of total	2004	% of total
<b>Returnable (R)</b>	49,832	40%	56,408	48%	136,245	41%	152,275	48%
<b>Non returnable (NR)</b>	75,084	60%	62,273	52%	192,914	59%	164,978	52%
<b>Single serve</b>	65,566	52%	63,497	54%	173,497	53%	174,559	55%
<b>Multiple serve</b>	59,349	48%	55,184	46%	155,662	47%	142,694	45%

We have executed various strategies aimed at protecting single-serve sales, which have stabilized in the last 4 quarters at approximately 53% of the total sales mix. Among these strategies are the extension of the 435 ml. glass returnable presentations with plastic cap to other cities, the introduction of 1 liter NR in various territories and the installation of vending machines. Furthermore, Arca is continuing promotions which will further develop the consumption of these packages, such as “Twist Off and Win” in 12-oz. returnable glass formats and Konec-T Coca-Cola, mentioned previously, for 600 ml. NR presentations.

Arca continues the projects related to its cost reduction and productivity improvement program, therefore it reiterates its target of Ps. 300 million in annualized savings by year-end 2005.

In Arca’s information systems area, new modules of the SAP platform were added, including “SAP HR” which centralizes and standardizes all payroll functions. Arca also made progress in the first phase of the “SAP Business Warehouse”, which is expected to be completed during 4Q05.

Also, the productivity of Arca’s primary transportation fleet (tractor trailers and tow trucks) has increased significantly in the few months since outsourcing this service. The cargo transported per truck has increased by more than 60%, while the fleet has been reduced substantially.

With regard to the Revenue Growth Management project, we introduced segmentation and the automation of our sales force in the Fronteras territories (Piedras Negras, Laredo, Reynosa and Matamoros) and Coahuila (Saltillo, Matehuala, Monclova) and it is currently being expanded to the West, starting in the state of Chihuahua.

Lastly, we continue installing additional coolers and vending machines to strengthen the point of sale. To date, have close to 11,000 vending machines installed throughout our markets.

## FINANCIAL ANALYSIS

### INCOME STATEMENT

Net sales for 3Q05 reached Ps. 4,138.7 million, an increase of 3.7% with respect to the Ps. 3,989.9 million recorded in 3Q04. This increase was a result of 5.3% growth in total volume combined with a reduction in the average price per case of 1.4% from Ps. 33.6 in 3Q04 to Ps. 33.1 in 3Q05.

Cost of goods sold increased by 4.8% to Ps. 2,086.3 million. The gross margin in 3Q05 was 49.6%, below the 50.1% registered in 3Q04. During 3Q05, the cost of goods sold per unit case decreased 0.4% when compared to 3Q04, from Ps. 16.8 to Ps. 16.7, despite the increases in the cost of PET resin and carbon dioxide, the shift in the sales mix towards NR packages and the payment of royalties for the Joya brand since October 2004.

3Q05 selling expenses decreased 2.5% totaling Ps. 882.7 million, while administrative expenses decreased 13.6% to Ps. 233.6 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.

As a result of the above, operating income (excluding non-recurring expenses) for 3Q05 reached Ps. 936.0 million, an increase of 13.6% with respect to 3Q04. Operating margin went from 20.6% in 3Q04 to 22.6% in 3Q05.

EBITDA (excluding non-recurring expenses) increased 7.6%, from Ps. 1,022.9 million in 3Q04 to Ps. 1,100.5 million in 3Q05, representing a margin of 25.6% and 26.6%, in 3Q04 and 3Q05, respectively.

During 3Q05, non-recurring expenses reached Ps. 20.8 million, mainly allocated towards personnel severance payments related to the “outsourcing” of transportation, as well as some adjustments at Arca’s corporate offices.

The integral financing result in 3Q05 was Ps. 6.4 million, compared to an integral cost of financing of Ps. 22.3 million in 3Q04.

During 3Q05, other income of Ps. 6.4 million was reported compared to the Ps. 309.6 million registered during the same period of 2004. It is important to mention that the amount reported in 3Q04 includes the non-recurring income generated by the sale of the Joya brand to the Coca-Cola Company in September 2004.

Provisions for income tax and employee profit sharing decreased 26.0% from Ps. 452.9 million in 3Q04 to Ps. 335.3 million in 3Q05. The effective tax rate was 41.1% and 36.1% for 3Q04 and 3Q05, respectively, while the effective tax rate for 9M05 was 35.7% compared to 40.8% for the same period of 2004.

Net income for 3Q05 decreased 8.2% with respect to 3Q04 reaching Ps. 597.6 million or Ps. 0.74 per share, compared to Ps. 650.9 million, or Ps. 0.81 per share, in 3Q04. This decline resulted from the extraordinary gain generated by the sale of the Joya brand in 3Q04. Without considering this effect, net income would have increased.



## BALANCE SHEET AND CASH FLOW STATEMENT

At September 30, 2005, Arca's cash balance was Ps. 2,578.3 million, while its net cash position was Ps. 1,029.9 million, compared to a net cash position of Ps. 1,063.5 for the same period in 2004.

Net operating cash flow decreased by 13.9% in the first nine months of 2005, primarily due to a lower reduction of working capital when compared to the figure reported in the first nine months of 2004. Notably, Arca has continued to apply strict discipline in the use of its working capital. However, it is difficult to obtain the reduction levels reached during 2004, a period during which maximum benefits were obtained from improved negotiations with suppliers and strict management of accounts receivable and inventories.

### RECENT EVENTS

- The Coca-Cola Company and its bottlers in Mexico recently formed the company SalesKO. The objective of SalesKO is to drive the non-carbonated soft drink segment, which is growing at a double digit rate, within the institutional channels (primarily supermarkets and convenience stores).
- In order to increase the number of shares held by minority shareholders and, therefore, to improve the liquidity of the Company's shares, the majority shareholders sold 24,180,630 shares, or 3.00% of the total shares outstanding, through the Mexican Stock Exchange on September 23, 2005. This raised Arca's float to the required minimum of 12%.
- On October 11, 2005, Arca's Board of Directors called a special shareholders' meeting to propose a dividend payment of Ps. 0.85 per share, equivalent to Ps. 685 million. This dividend is in addition to the Ps. 0.80 per share that were paid in May of 2005, thereby maintaining Arca's dividend payout ratio among the highest for companies traded on the Mexican Stock Exchange. The special shareholders' meeting will be held on November 3, 2005 in Ciudad Juarez, Chihuahua.
- The Coca-Cola Company recently informed Arca that it will gradually increase its royalties on sales of non-returnable soft drink products starting in 2007 and ending in 2009.

Should this increase occur, Arca will analyze a series of actions aimed at minimizing its impact, including the possibility of reducing the marketing expenses related to Coca-Cola brand products, effective the same dates as the cost increases.

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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 September 30, 2005)

	<b>3rd. Quarter</b>		<b>January-September</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
NET SALES	4,138,665	3,989,872	10,946,431	10,827,548
COST OF SALES	<u>-2,086,347</u>	<u>-1,990,389</u>	<u>-5,583,640</u>	<u>-5,404,558</u>
GROSS PROFIT	2,052,318 49.6%	1,999,483 50.1%	5,362,791 49.0%	5,422,990 50.1%
SELLING EXPENSES	-882,720	-905,309	-2,460,791	-2,563,901
ADMINISTRATIVE EXPENSES	<u>-233,619</u>	<u>-270,355</u>	<u>-663,923</u>	<u>-813,514</u>
OPERATING INCOME (excludes non-recurring expenses)	935,978 22.6%	823,818 20.6%	2,238,077 20.4%	2,045,576 18.9%
NON-RECURRING EXPENSES	<u>-20,766</u>	<u>-8,280</u>	<u>-40,090</u>	<u>-25,156</u>
COMPREHENSIVE FINANCIAL RESULT:				
INTEREST EXPENSE, NET	7,838	-18,709	-423	-40,095
EXCHANGE GAIN (LOSS)	1,847	-4,620	-28,184	10,452
MONETARY POSITION GAIN (LOSS)	<u>-3,265</u>	<u>1,002</u>	<u>-6,065</u>	<u>5,305</u>
	6,420	-22,327	-34,673	-24,337
	<u>921,631</u>	<u>793,212</u>	<u>2,163,314</u>	<u>1,996,083</u>
OTHER INCOME (EXPENSE), NET	6,388	309,639	45,841	372,578
INCOME BEFORE THE FOLLOWING PROVISIONS:	928,019 22.4%	1,102,851 27.6%	2,209,155 20.2%	2,368,661 21.9%
PROVISIONS FOR:				
INCOME ASSET TAX	-256,528	-380,043	-602,985	-761,118
EMPLOYEES' PROFIT SHARING	<u>-78,757</u>	<u>-72,812</u>	<u>-186,268</u>	<u>-204,518</u>
TOTAL PROVISIONS	<u>-335,285</u>	<u>-452,855</u>	<u>-789,253</u>	<u>-965,635</u>
EQUITY IN EARNINGS OF AFFILIATES AND MINORITY INTEREST	4,870	870	6,134	5,200
<b>CONSOLIDATED NET INCOME</b>	<b>597,605</b>	<b>650,866</b>	<b>1,426,037</b>	<b>1,408,225</b>
DEPRECIATION AND AMORTIZATION OF GOODWILL	164,495	199,100	496,168	587,049
<b>EBITDA (excludes non-recurring expenses)</b>	<b>1,100,474</b>	<b>1,022,919</b>	<b>2,734,245</b>	<b>2,632,625</b>
<b>EBITDA MARGIN</b>	<b>26.6%</b>	<b>25.6%</b>	<b>25.0%</b>	<b>24.3%</b>
<b>Per Share Data:</b>				
Net Income	0.74	0.81	1.77	1.75
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 September 30, 2005)

	<b>as of September 30,</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>ASSETS</b>		
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<b>CURRENT ASSETS</b>		
Cash & Cash Equivalents	2,578,281	2,682,168
Accounts receivable, net	551,477	413,026
Other accounts receivable	259,940	312,051
Inventories	830,559	962,805
Prepayments	63,099	56,770
<b>Total Current Assets</b>	<b>4,283,356</b>	<b>4,426,820</b>
ACCOUNTS RECEIVABLE - LONG TERM	281,093	377,873
INVESTMENT IN SHARES	129,617	107,035
PROPERTY, PLANT AND EQUIPMENT	7,683,248	7,553,701
GOODWILL, NET	2,046,486	2,083,853
OTHER ASSETS	152,059	138,853
<b>TOTAL ASSETS</b>	<b>14,575,859</b>	<b>14,688,135</b>
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<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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<b>CURRENT LIABILITIES</b>		
Bank loans	11,246	12,307
Suppliers	717,065	607,960
Other accounts payable and expenses	668,649	1,039,133
<b>Total Current Liabilities</b>	<b>1,396,960</b>	<b>1,659,400</b>
LONG TERM BANK LOANS	1,537,163	1,606,396
PENSION PLANS AND SENIORITY PREMIUMS	151,087	188,512
DEFERRED INCOME TAX	1,110,767	1,292,056
<b>TOTAL LIABILITIES</b>	<b>4,195,977</b>	<b>4,746,364</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital Stock	4,904,738	4,892,374
Retained Earnings	4,049,108	3,641,171
Net Profit (Loss)	1,426,037	1,408,226
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>10,379,882</b>	<b>9,941,771</b>
<b>TOTAL LIABILITIES AND SHAREHODLERS' EQUITY</b>	<b>14,575,859</b>	<b>14,688,135</b>



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

**As of September 30, 2005**

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

	<u>2005</u>	<u>2004</u>
<b>NET INCOME</b>	<b>1,426,037</b>	<b>1,408,226</b>
+ DEPRECIATION	477,207	586,747
+ OTHER AMORTIZATIONS	18,960	15,129
+ OTHER	29,597	-370,707
+ PENSION PLANS AND SENIORITY PREMIU	10,080	30,511
<b>= OPERATING CASH FLOW</b>	<b>1,961,881</b>	<b>1,669,905</b>
<b>- WORKING CAPITAL</b>	<b>-46,321</b>	<b>-654,665</b>
<b>= OPERATING CASH FLOW AFTER WORKING CAPITAL NEEDS</b>	<b>2,008,203</b>	<b>2,324,570</b>
- DEBT AMORTIZATION	35,162	-15,757
- CAPITAL EXPENDITURES (NET)	577,980	172,436
- DIVIDENDS PAID	648,749	585,301
- SHARE REPURCHASE PROGRAM	-16,174	68,931
<b>= OPERATING CASH FLOW AFTER FIN. AND INVESTING NEEDS</b>	<b>762,486</b>	<b>1,513,659</b>
<b>CASH BALANCE AT THE BEGINNING OF PERIOD</b>	<b>1,815,796</b>	<b>1,168,508</b>
<b>= CASH BALANCE AT THE END OF PERIOD</b>	<b>2,578,281</b>	<b>2,682,168</b>