2006 Annual Report

# Delivering what matters

EMBOTELLADORAS ARCA

# DELIVERING WHAT MATTERS

Our market leadership and the preference shown for our products reflect the long-term relationships we have built with our customers and consumers through quality service, short lead times and efficient delivery to the more than 200,000 establishments that we serve every day.


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# 80 YEARS
## COMMITTED TO MEXICO



**AS COCA-COLA CELEBRATES ITS FIRST 80 YEARS IN MEXICO, EMBOTELLADORAS ARCA REAFFIRMS ITS COMMITMENT TO BE CLOSE TO CONSUMERS AND AN INTEGRAL PART OF THEIR LIVES.**

Over the past eighty years, the satisfaction of customers and consumers has been the main driver of our ongoing evolution and progress. Through this process of growth, we have constantly leveraged our competitive advantages and reaffirmed the values and vision that we share with the Coca-Cola Company, allowing us to contribute to the development of our country.

It is precisely these values and vision that have positioned Coca-Cola as Mexico's best known and preferred soft drink, especially in the nation's northern region, and, because of our business philosophy, we do far more than simply produce drinks that benefit and refresh people. We make a real difference to the communities we serve, contributing to their economic development, to building a fairer society, to promoting respect for, and conservation of, our environment, and to promoting a healthy lifestyle and family unity.

We are proud to be part of this history of success and it motivates us to continue improving. Our growth and progress recognize the commitment and strength of three successful family businesses founded by Don Emilio Arizpe de los Santos, Don Manuel Barragan Escamilla and Don Tomas Fernandez Blanco. These enterprises, which were subsequently merged to form Arca, pioneered the soft drinks business in Mexico, contributing to Coca-Cola's growth and continuity, and leaving a legacy which continues today in our Company.

**Our dedication to our customers and consumers is solid and unwavering; we have always been committed to offering them the very best and will continue to do so:**

- **Refreshing people everywhere, every day and on every occasion.**
- **Offering reliable, high-quality products.**
- **Spreading optimism and inspiration through our products and activities.**
- **Satisfying new desires and needs with our products.**
- **Entertaining and uplifting the world through music, sports and culture.**
- **Acting as responsible citizens in our communities and contributing to their well-being.**

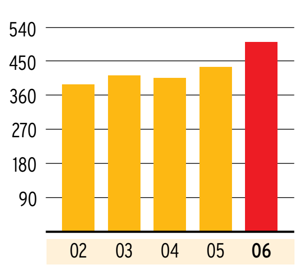
# FINANCIAL HIGHLIGHTS

(in millions of Mexican Pesos in purchasing power as of December 31, 2006 except per share data)

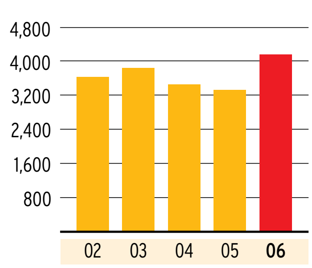
| | **2006** | 2005 | Cambio % |
|---|---|---|---|
| Sales volume (millions of unit cases)[1] | **468.0** | 435.6 | 7.5% |
| Net sales | **16,672** | 15,240 | 9.4% |
| Gross Margin | **48.3%** | 48.5% | |
| Operating profit[2] | **3,296** | 2,879 | 14.5% |
| Operating Margin | **19.8%** | 18.9% | |
| EBITDA[3] | **4,007** | 3,575 | 12.1% |
| EBITDA Margin | **24.0%** | 23.5% | |
| Net income | **2,210** | 2,037 | 8.5% |
| Total assets | **15,654** | 14,885 | 5.2% |
| Cash on hand | **2,469** | 2,029 | 21.7% |
| Total debt | **1,532** | 1,605 | -4.6% |
| Stockholders' equity | **11,356** | 10,740 | 5.7% |
| Resources provided by operating activities[4] | **3,224** | 2,445 | 31.9% |
| Dividends paid | **1,597** | 1,403 | 13.9% |
| Capital expenditures | **1,010** | 812 | 24.3% |
| | | | |
| Data per share[5] | | | |
| Net income | **2.74** | 2.53 | |
| Book value | **14.09** | 13.32 | |
| Dividends paid | **1.98** | 1.74 | |

1. Includes soft drinks and purified water in personal formats.
2. Excludes non-recurring expenses for a total of Ps. 45 in 2005, and Ps. 20 million in 2006.
3. Operating income plus depreciation and amortization. Excludes non-recurring expenses mentioned in note 2.
4. After working capital needs.
5. Based on 806,019,659 shares outstanding.

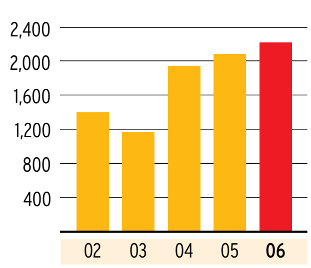
Sales Volume
(million unit cases)




(EBITDA)*
(in millions of Mexican Pesos)




Net Income
(in millions of Mexican Pesos)




* Excludes non-recurring expenses

# TO OUR SHAREHOLDERS

**THANKS TO OUR PEOPLE'S PROFESSIONALISM AND COMMITMENT TO DELIVER SUPERIOR SERVICE EVERY DAY, IN 2006 WE CONSOLIDATED THE TRUST OF OUR CUSTOMERS AND CONSUMERS AND SECURED THEIR PREFERENCE FOR OUR PRODUCTS, ENABLING US TO POST RECORD FIGURES FOR OUR MAIN PERFORMANCE INDICATORS.**

**Manuel L. Barragan Morales**
Chairman of the Board (left)
**Francisco Garza Egloff**
Chief Executive Officer

## To Our Fellow Shareholders:

The year 2006 held significant achievements for Embotelladoras Arca. Projects aimed at ensuring the full satisfaction of customers and consumers and enhancing productivity and operating efficiency resulted in solid revenue growth and increased profitability.

In response to the entry of new competitors and emerging beverages, combined with high input costs, we focused on expanding our portfolio with new products targeted at specific occasions and on satisfying the growing trend toward non-carbonated drinks.

Thanks to our people's teamwork and their commitment to offering excellent service and making every step of the operating process more efficient, we were able to capitalize on the opportunities generated by a favorable climate and increased economic activity in the regions where we operate. As a result, revenue grew 9.4% year-over-year to 16,672 million pesos, and sales volume grew 7.5% to 468 million cases in 2006, historic records for the Company.

Operating income[1] increased 14.5% to 3,296 million pesos, and our operating margin grew from 18.9% in 2005 to 19.8% in 2006, one of the highest margins among bottlers worldwide. Net income per share was 2.74 pesos, 8.5% above that of 2005, while return on invested capital[2] exceeded 27%.

Our solid financial position and the trust of Arca's investors translated into a 73% rise in share price during the year, which, combined with a 1.98 pesos[3] per share dividend, made our Company one of the best performers in the Mexican Stock Market.

The initiatives we implemented and the results obtained in 2006 have strengthened our leadership position in the markets we serve and have made Arca a more agile and competitive organization, establishing a solid platform for future success and profitable, sustainable growth as we continue **delivering what matters.**

1 Excluding non-recurring expenses
2 Before-tax operating income / Operating assets net of non-interest-bearing short-term liabilities
3 In real terms. 1.95 pesos in current pesos

" AS 2007 BEGAN, WE REAFFIRMED OUR COMMITMENT TO CONTINUE DEVELOPING OPPORTUNITIES FOR CREATING VALUE FOR OUR SHAREHOLDERS BY ALWAYS DELIVERING WHAT MATTERS: REPRESENTING THE BEST OPTION IN THE MARKETS WE SERVE, OFFERING QUALITY PRODUCTS THAT SATISFY DIFFERENT NEEDS AND TASTES, AND PROVIDING EXCELLENT SERVICE BASED ON OUR CLOSE RELATIONSHIP WITH CUSTOMERS AND CONSUMERS. "

- MANUEL L. BARRAGAN MORALES -

## • Strengthening our market leadership

Our innovation in products, packaging and price alternatives, combined with initiatives to drive the sales of individual drinks – including promotions and the installation of additional vending machines and coolers – resulted in growth in all regions and segments, with a rise of 6.5% in colas, 9.2% in diet drinks and 6.8% in non-cola soft drinks. Revenue from single-serve offerings of purified water grew 15.9% in 2006, reflecting increased coverage, new marketing initiatives and display formats, and enhanced incentives for our customers.

Sales of Topo Chico mineral water rose significantly in 2006, with a 15% growth in volume in Mexico and a 24% rise in exports year-over-year, making it the leading brand in Hispanic supermarkets in the United States and the third largest brand imported into the U.S.

We have been working with The Coca-Cola Company to strengthen our non-carbonated drinks segment, which is becoming more popular with consumers and grew a very significant 55% in volume during the year. This expansion was largely driven by the introduction of Ciel Naturae, a lightly carbonated flavored water, and Minute Maid juices in different presentations, as well as by good results for Ciel Aquarius.

In our effort to identify consumers' needs and respond to them quickly and efficiently, we made an in-depth market analysis and segmentation, using state-of-the-art information technology (IT). As a result, we were able to reinforce our leadership in traditional channels through differentiated point-of-sale execution, backed by a wide variety of products and packaging at competitive prices, extended coverage of coolers and displays, and marketing initiatives such as loyalty programs, among other actions.

At the same time, we posted better results in the modern trade as a result of our solid relationships with institutional customers. We have partnered with these clients to offer differentiated value for the consumer at every location.

## • Technology and operating innovation

In order to increase our market leadership and consolidate sustained growth, we continued to develop competitive advantages by implementing technological innovation strategies to maximize the quality of our service, optimize costs and enhance operating efficiency.

In 2006, we concluded the corporate IT projects that had been initiated in previous years. These projects have translated into important operating improvements and a more efficient service in the marketplace.

An example of the results we have obtained is the increased standardization of the commercial system in our six different regions of operation. We now use state-of-the-art software and hand-helds, which, complemented by the culmination of our Revenue Growth Management and Automation of the Sales Force projects, has given us a more precise execution that is differentiated by point of sale, supporting the growth we have seen during the year.

## • Quality and operating efficiency

"THE INITIATIVES WE IMPLEMENTED AND THE RESULTS OBTAINED IN 2006 HAVE STRENGTHENED OUR LEADERSHIP POSITION IN THE MARKETS WE SERVE AND HAVE MADE ARCA A MORE AGILE AND COMPETITIVE ORGANIZATION, ESTABLISHING A SOLID PLATFORM FOR FUTURE SUCCESS AND PROFITABLE, SUSTAINABLE GROWTH AS WE CONTINUE DELIVERING WHAT MATTERS."

- FRANCISCO GARZA EGLOFF -

Arca's institutional productivity, service and excellence programs have enabled us to synchronize our sales, demand forecast, supply, production, logistics and distribution activities. Due to these technological tools and the focused efforts of our employees, the service indicator for our pre-sales orders reached 100%, and for the fourth consecutive year, productivity per employee and per route grew, by 5% and 10%, respectively.

As part of our project to optimize the supply chain, we concluded the construction of a production planning module. This will allow us to program all plants centrally, and so determine automatically and consistently what, where and when to produce according to projected demand and existing inventory in the different territories.

The integration of such tools into our operations moved us forward in our implementation of the Coca-Cola Quality Assurance System. Almost all our production facilities have obtained Phase IV certification, recognizing that they meet the highest standards of quality and operational control.

## • Growth opportunities

We are pioneers in the Mexican drinks industry and have a track record of more than 80 years of partnering with The Coca-Cola Company to promote the world's most prestigious brand. We are pleased to announce that we recently signed a comprehensive agreement with The Coca-Cola Company that establishes a new platform of mutual cooperation. This will further strengthen our leadership in the soft drinks business, refocus our initiatives for growing our purified water segment, and allow us to enter, partnered with Coca-Cola and other bottlers, into the emerging beverage business.

As a first step in the Company's value creation initiative that increases participation in associated segments, Arca acquired a majority interest in Bokados, a company that has been producing and distributing snacks for more than 30 years, with annual sales in excess of 500 million pesos. Our entry into this business will allow us to capitalize on growth opportunities in impulse purchases of products and brands with a distribution and consumption profile similar to that of soft drinks.

At the same time, we made further progress expanding into specific soft drink-related sectors, such as vending machines, where we installed 14,000 carbonated soft drink and 1,000 snack units, with very positive results. In 2006, jug water sales grew 13%, largely because of increased coverage as a result of acquisitions in Monterrey and Juarez.

To leverage the opportunities resulting from the demand in the Hispanic market in the United States for Coca-Cola sweetened with cane sugar and provided in glass bottles, we have partnered with Coca-Cola North America and Coca-Cola Enterprises to strengthen our export program, shipping almost 2 million unit cases to that market during the year.

## • Development of human capital and corporate social responsibility

The positive results posted in all areas of our organization are to a large extent a direct result of the ongoing development of our people and their ability to work as a team. In 2006, we concluded the implementation of the Arca Improvement and Total Quality System (CIMA) in all our territories and its institutional implementation through Participative Administration Teams (EQAPs) in all work centers.

Our many environmental protection initiatives include the voluntary certification of all our production facilities as "Clean Industry" operations and, in the area of recycling, the expansion of our PET bottle-collecting program to all our territories in conjunction with ECOCE (a non-profit organization that operates a national plan for managing PET waste).

The commitment of our people to improving the quality of life in the communities we serve was clearly visible during our first Arca Voluntary Work Day (VOLAR) when hundreds of our fellow workers throughout all our territories took part in relevant social activities.

Our Corporate Social Responsibility initiative includes objectives to promote healthy habits in the community and to support charity organizations. Toward this goal, we held the First Arca Powerade Marathon with the participation of over 1,500 runners.

For the fourth consecutive year, Arca was recognized for its community and environmental protection initiatives – which are detailed in the Corporate Social Responsibility Report – with the Socially Responsible Company distinction from the Mexican Center for Philanthropy (CEMEFI).

As 2007 began, we reaffirmed our commitment to continue developing opportunities for creating value for our shareholders by always **delivering what matters:** representing the best option in the markets we serve, offering quality products that satisfy different needs and tastes, and providing excellent service based on our close relationship with customers and consumers.

We would like to thank the Board of Directors, whose support has been a key factor in ensuring that our organization consolidates its business strategies and keeps delivering what matters for success.

We would also like to recognize the commitment and determination of our people. Our success reflects their efforts and it is thanks to them that we can aspire to even higher goals.

As we have done throughout our history, we continue to focus our daily efforts on exceeding the expectations of our customers and consumers, who are the reason that our Company exists and whom we thank for their trust and their preference for our products and brands.

Manuel L. Barragan Morales
Chairman of the Board of Directors

Francisco Garza Egloff
Chief Executive Officer

# DELIVERING WHAT MATTERS

**OUR GOAL IS TO ACHIEVE FULL CLIENT AND CONSUMER SATISFACTION WITH AN ARRAY OF PRODUCTS AND SUPERB SERVICE DESIGNED TO MEET THEIR NEEDS. DRAWING UPON OUR EMPLOYEES' ENTHUSIASM AND EXPERTISE, WE FOCUS OUR DAY-TO-DAY EFFORTS ON CREATING VALUE WITHIN A FRAMEWORK OF INCREASED OPERATING EFFICIENCY, TECHNOLOGICAL INNOVATION AND A CONSTANT SEARCH FOR NEW OPPORTUNITIES FOR GROWTH.**

# DIFFERENTIATED PRODUCT PORTFOLIO

**WE ARE WORKING TOWARD EXPANDING OUR PRODUCT PORTFOLIO IN ORDER TO SATISFY THE DIFFERENT NEEDS OF OUR CLIENTS, WHO CONTINUE TO DEMAND MORE AND BETTER OPTIONS. WE HAVE CONCENTRATED OUR EFFORTS ON STRENGTHENING OUR EXISTING ARRAY OF BEVERAGES AND PRESENTATIONS AT COMPETITIVE PRICES WHILE JOINTLY BOOSTING CREATIVE PROMOTIONS AND NEW PRODUCT LAUNCHES.**

## OPTIONS FOR ANYTIME PURCHASING

**Non-carbonated beverages recorded an impressive increase of 55% due to the greater consumer acceptance of Ciel Aquarius flavored water, and the introduction of Ciel Naturae and, most recently, Minute Maid juices to the market.**

As an important part of our strategy to increase our portfolio's profitability and growth, we are promoting single-serve drinks with effective campaigns, in addition to expanding our cooler and vending machine presence, adding value to those markets we serve. These actions, among others, have contributed to a record year in sales volume.

In the cola segment, we achieved a 6.5% growth, mainly due to our success in introducing different packaging, which improved our price structure and guaranteed key product coverage within each market niche.

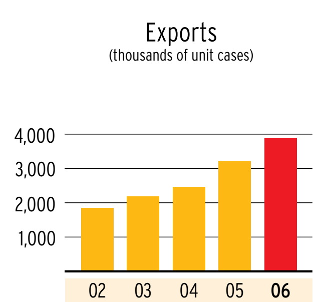
Our diet beverages continued to show potential, achieving a 9.2% growth, boosted by strong sales of Coca-Cola Light and Topo Chico Sangria Light, as well as the diet drinks promoted under the "Spacio Leve" label. Sales of flavored carbonated soft drinks (CSD) grew 6.8% due to a better positioning of Sprite and Fanta.

Sales of single-serve offerings within the purified water segment continued to significantly expand. During 2006, products in this category broadened their reach and attracted more clients through new merchandising tactics that included displaying the products at point of sales and better client incentives. Purified water volume registered a 15.9% advance over the previous year.

Topo Chico mineral water had another outstanding year, showing a 15% growth volume, supported by its increased coverage in all our territories and a better positioning of the product among young consumers. Exports recorded an increase of 24% due to new channel development, the introduction of new presentations and the efforts of loyalty programs positioning Topo Chico as the best Mexican mineral water brand sold in the United States.

Capitalizing on the advertising and promotion that are undoubtedly the main factors that give life to our brands and promote positive consumer response, in the year 2006, we established a presence at the World Soccer Cup, generating promotional campaigns that attracted consumers and contributed to our growth in sales volume.

During the upcoming year, we will continue to focus on strengthening the value of the Coca-Cola brand by expanding our product offerings to meet new market trends, primarily toward low-calorie beverages, while simultaneously introducing new formats, brand extensions and multi-package presentations.



# MARKET-ORIENTED SUPERIOR SERVICE

**WE ARE CONTINUALLY FOCUSED ON PERFECTING OUR PERFORMANCE AND SERVICE AT POINT OF SALE. THUS, WE HAVE CARRIED OUT AN IN-DEPTH MARKET ANALYSIS AND SEGMENTATION USING STATE-OF-THE-ART INFORMATION TECHNOLOGY TO IDENTIFY CONSUMER NEEDS. THIS WILL ALLOW US TO RESPOND QUICKLY AND EFFICIENTLY WITH AN ARRAY OF PRODUCTS AND BRANDS DESIGNED TO MEET ALL EXPECTATIONS.**

# CLIENT AND CONSUMER CONTACT


Our leadership in the industry depends upon building long-lasting client and consumer relationships through quality service and timely product delivery. Because we visit daily more than 200,000 outlets, we have adopted the most innovative software technology and hand-helds, enabling us to standardize merchandising processes, replicate best practices and differentiate ourselves from our competitors through our superior performance in the marketplace.

We have also concluded the Revenue Growth Management and Sales Force Automation Projects in all of our operating zones, allowing us to move forward into micro-segmentation and a more efficient management of SKU and pricing architecture, directed at all times toward maximizing revenues and profitability by point of sale and route.

In the modern trade, we developed a closer relationship and achieved a wider coverage with our clients by relying on an efficient team of merchandisers, and a differentiated product and promotion offering, as well as additional exhibit space. Furthermore, we have provided to some of our institutional clients an internet website for placing orders and conducting follow-up, which will translate into increased productivity in their business.

As part of our efforts to offer better service to our clients, we have renewed our Telephone Client Attention Center. This will make an important contribution to accelerating the opening of new client accounts, reducing stock-outs, speeding up the delivery process through phone pre-sales and responding to specific client needs.

In the coming year, we will continue to strive to achieve greater contact with clients and consumers through services such as Telventa and the introduction of more vending machines and coolers, keeping close track of their performance. We recently started segmenting in convenience stores and supermarkets, which will allow us to maximize sales value in this dynamic channel.

**Seeking added value from our products, we increased coolers and display coverage in the traditional channels, thus bringing a greater variety of beverages within every consumer's reach.**

# TECHNOLOGY INNOVATION

**Through the Customer Relationship Management (CRM) program, we will obtain a more precise handling of profitability by channel and by client.**

Effective IT project implementation has proven to be an important factor in perfecting levels of service, raising productivity and ensuring a better control of resources.

Besides standardizing our commercial system and implementing planning and production modules, during 2006 we also concluded complementary projects such as the Global Available to Promise (GATP), which minimizes stock-outs through an automated search of products available at the lowest cost possible within our distribution network. The Monitor and Cockpit module, helps reduce variations within the supply chain through an early detection of shortages and the institution of corrective measures, was also adopted.

At the same time, we have put into place new systems to ensure better management and communication within the organization. An example of this is the Human Resources module within the SAP platform, which facilitates the centralized management and standardization of personnel fringe benefits, and automates the calculation of commissions for the sales force and the configuration of each territory, among other benefits. In addition, we finalized the VIA Intranet portals' second phase, which automates diverse employee services and improves in-house communications.

We will continue improving our information systems with state-of-the-art tools, maintaining our ability to respond to further developments and perfecting our coordination of all links of the production and sales chain, always with the goal of boosting our productivity indicators, from supply to the delivery of our product at point of sale. For this reason, we are moving ahead with projects such as Transport Plan Vehicle Scheduling (TPVS), which automatically synchronizes production programs with the requirements and inventory levels specified at each distribution center.

# OPERATIONAL EFFICIENCY

**WE ARE INTENT ON ACHIEVING A MORE EFFICIENT, TECHNOLOGY-INTENSIVE OPERATION THAT ALLOWS US TO CONTINUOUSLY IMPROVE EXECUTION AND STRENGTHEN OUR MARKET LEADERSHIP POSITION.**

# NEW ROADS FOR GROWTH

**COMMITTED TO THE POSITIVE EVOLUTION OF OUR COMPANY AND ITS LONG-TERM VIABILITY, WE ARE CONSTANTLY OFFERING NEW VALUE PROPOSALS TO CLIENTS AND CONSUMERS, DIRECTED TOWARD STRENGTHENING OUR CORE BUSINESS AND BUILDING ALTERNATE GROWTH ROUTES IN ASSOCIATED SECTORS.**

PREPARED FOR A PROMISING FUTURE

We have recently signed an agreement with The Coca-Cola Company to build a new platform, based on mutual cooperation that will allow us to consolidate our leadership in the CSD business in addition to strengthening the purified water segment. To this end, we will gradually consolidate under the brand Ciel all the purified water commercial strategies, in both single-serve and jug presentations.

Also as part of the agreement, we will enter into the emerging beverage business with The Coca-Cola Company and the rest of the bottlers, supported by a joint venture that will unite our efforts to tap this growing sector. As a first step, we will have the opportunity to participate in the acquisition of Jugos del Valle in Mexico, under the same terms and conditions that the firm established with The Coca-Cola Company and Coca-Cola FEMSA.

Aiming to expand our presence in the vending channel, we had reached 14,000 CSD vending units in operation at the end of 2006, which makes us the largest such operator in Mexico. Our goal is to develop this business by strategically placing new vending machines, utilizing IT to automate operations and to provide indicators for better performance and control mechanisms.

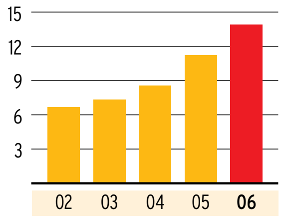
We have also moved into the snack vending machine business, placing nearly 1,000 units into some of the major cities in the areas where we operate. We have further introduced dual-service equipment that can handle both CSD and snacks in the same unit.

**With the goal of maximizing the high potential of the vending machine channel, we have centralized those operations under one business unit, including delivery, management and control systems, among other functions.**

Since our recent acquisition of the snack company Bokados, we have started the integration process and taken the first steps to capitalizing on its value. This includes initiating projects to share best practices and extracting "low-hanging" synergies, mainly in management, systems and telecommunications, as well as in human resources and procurement. At the same time, we plan to accelerate growth at Bokados through a larger coverage in those territories in which we operate and its integration into both the snack vending machine network and our sales force in the U.S. Hispanic market.

To tap the Mexican population living in the United States, we have increased exports of Coca-Cola soft drinks in glass bottles for distribution and sale through Coca-Cola North America and Coca-Cola Enterprises. This project, named "Nostalgia," reached a volume of almost 2 million unit cases in 2006.

Vending Machines
(thousands of unit cases)




# CREATING SUSTAINED VALUE

**SINCE OUR BEGINNINGS AT ARCA, WE HAVE BEEN A RESULTS-ORIENTED COMPANY, TAKING SPECIFIC ACTIONS TO PROMOTE A SUSTAINED AND PROFITABLE GROWTH BY CONSTANTLY SEARCHING OUT NEW OPPORTUNITIES FOR CREATING VALUE.**

## PROFITABILITY

**Operating expenses[1] as a percentage of sales decreased from 35.7% in 2002 to 28.5% in 2006, one of the lowest among soft drink bottlers worldwide.**

In the year 2006, we achieved a greater operating margin and a significant improvement in our profitability indicators, in spite of an increase in the cost of our key raw materials. This was the result of our strict discipline in managing resources and in constantly monitoring performance indicators and ensuring accountability for the different projects pursued.

In 2006 we concluded the third phase of the cost and expense reduction program that we set up in 2003, which has yielded savings of more than 925 million pesos on an annual basis, along with optimizing working capital and non-strategic assets.

Savings generated by standard sugar clarification projects and the weight reduction of PET bottles, as well as several outsourcing projects carried out in the past, were also important drivers of improved profitability. For example, we were able to continue increasing productivity in the area of primary transportation (measured as the number of unit cases per truck transported). This was accomplished thanks to better coordination through the Logistics Center. In addition, pre-form and bottle shipment costs were down thanks to the installation of new blowing equipment in several of our plants.

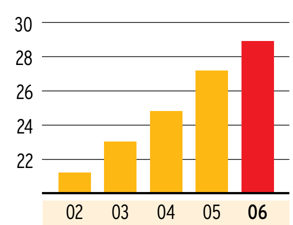
We also continued to improve our productivity ratios, as evidenced by volume sales per employee that grew 5% in the most recent year, and 31% over the last four years, while increasing route efficiency, which grew 10% in 2006.

In order to satisfy projected demand for the coming years, we have added two new production lines, one at the Matamoros plant and the other at Monterrey; the latter has the flexibility to fill glass NR bottles as well as PET NR bottles. Furthermore, two new distribution centers started operations, one at Delicias, Chihuahua, and another at Reynosa in the state of Tamaulipas. Both are equipped to perform "cross-docking" operations, which allows arriving shipments to be loaded directly into the delivery trucks that serve that particular region, reducing or eliminating inventories on-site.

The investment in fixed assets in 2007 will be approximately $120 million, of which $70 million will be for regular maintenance and equipment replacement. The remaining will be spent on installing additional vending machines and on increasing the bottling capacity of NR products in the South Pacific and North Pacific regions, among other projects.

Results obtained to date provide a clear incentive to continue searching for new opportunities for productivity improvements as we consolidate our position as a leading company in terms of growth and sustainable profitability in the beverage industry in Latin America.

Productivity per Employee
(thousands of unit cases)




1 Excludes non-recurring expenses



## SOCIAL RESPONSIBILITY

With the goal of establishing best practices throughout the organization, we concluded the formation of Participative Management Teams (EQAPs) in all of our territories. These teams are a fundamental tool of the CIMA project, which has allowed our employees to adopt new working methods with goals in line with the Company's growth and future market needs.

Personnel development enabling our workers to respond to the challenges of today's dynamic business environment has been our main asset. We continue to promote training programs toward this end, incorporating them into the SAP platform through the Human Capital Development module in all of our operating zones. The module will help establish growth plans for each employee on a systematic basis.

Reflecting the Company's commitment to social responsibility, more and more of our personnel took part in community assistance programs throughout 2006. The Arca volunteer program, VOLAR, reached out to a greater number of communities through our first "Volunteer Day" in which more than 600 fellow participants took part, refurbishing schools, joining river and beach cleanups, and providing support to charities, shelters and senior citizen homes, among other activities.

We have also broadened our support of, and participation in, the "Movimiento Congruencia" (Congruent Movement) which integrates people with special needs into our workforce. At the same time, in conjunction with the Coca-Cola Foundation, we are actively participating in the fitting out of schools and shelters in underprivileged communities, thus maintaining our goal of providing assistance to those groups in need.

Meeting the strictest environment standards in our operations is a day-to-day matter. We are committed to continuing our participation as a "Industria Limpia" (Clean Industry) in the certified voluntary program under PROFEPA (Mexican Federal Environmental Protection Agency), guaranteeing that each production unit in all our plants and facilities operates in a sustainable and orderly manner consistent with the needs of the environment.

**A further focus of our community outreach is the promoting of healthy habits through sporting activities. In 2006 Arca organized the First Arca Powerade Marathon in which more than 1,500 runners took part; the proceeds benefited a number of charitable organizations.**

We have enhanced our environmental programs and efforts to promote an ecologically oriented culture within our society by supporting schools and creating Eco-Clubs that promote environmental awareness among children, working within the framework of ECOCE (Association of Ecology and Corporate Commitment), Mexico's most important non-returnable plastic bottle collection program.

We have also reaffirmed our conviction to publicize our commitment to the environment and community through our Arca Social Responsibility report. For four consecutive years Arca has been recognized by the Mexican Center for Philanthropy as a Socially Responsible Company.

# COMMITMENT TO OUR PEOPLE AND OUR COMMUNITY

**THE RESULTS ACHIEVED IN 2006 ARE AN INDICATION OF OUR PEOPLE'S GROWING PROFESSIONALISM. WE HAVE FOCUSED ON STRENGTHENING THE INSTITUTIONAL TOOLS OF ORGANIZATIONAL DEVELOPMENT THROUGH ARCA'S INTEGRAL QUALITY AND IMPROVEMENT SYSTEM ("CIMA"), AS WELL AS BY PROMOTING SOCIAL RESPONSIBILITY PROGRAMS IN THE COMMUNITIES IN WHICH WE SERVE.**

Seated (from left to right): Francisco Garza Egloff, Adrian Wong Boren, Arturo Gutierrez Hernandez, Pablo Macouzet Brito.
Standing: Leonel Cruz Martinez, Jose Luis Gonzalez Garcia, Emilio Marcos Charur.

# SENIOR MANAGEMENT

**Francisco Garza Egloff** (52) Chief Executive Officer since January 2003. During the previous 26 years, he held various positions at Alfa including Chief Executive Officer of Sigma Alimentos, S.A. de C.V., Akra, Petrocel-Temex and Polioles. Mr. Garza has a degree in Chemical Engineering from ITESM and has taken several post-graduate courses at IPADE.

**Leonel Cruz Martinez** (54) Chief Operating Officer since 2003. Mr. Cruz joined Argos in 1988. He was initially named General Manager of Argos' bottling plants in Obregon and later in Mexicali. In 1998 he was named Chief Operating Officer of Argos. Mr. Cruz has a Bachelor's Degree in Business Administration from Universidad de Sonora and a Master's in Agricultural Economics from the Colegio de Postgraduados.

**Jose Luis Gonzalez Garcia** (55) Chief Marketing Officer of the Company since 1991 and has held various other positions since 1987. Previously he was Vice Director of Operations at TCCEC. Mr. Gonzalez has a degree in Economics from the Universidad Autonoma de Nuevo Leon and post graduate studies from IPADE.

**Arturo Gutierrez Hernandez** (41) Director of Human Resources and Corporate Planning and Secretary of Arca's Board of Directors since 2001. Before joining the Company, he worked for Alfa Corporativo and was Secretary of the Boards of Directors of several Alfa companies. Mr. Gutierrez has a law degree from the Escuela Libre de Derecho and a Masters of Laws from Harvard University.

**Pablo Macouzet Brito** (53) Chief Technology Officer since 2004. He worked for Coca-Cola de Mexico, Coca-Cola FEMSA and the retail chain Aurrera before joining Arca. He became Chief Technology Officer of Grupo Argos, and held this position until the merger of Arca. Mr. Macouzet holds a degree in Industrial Engineering from Universidad Iberoamericana, and a Master's degree in Planning and Systems from Universidad La Salle.

**Adrian Wong Boren** (56) Chief Financial and Administrative Officer since 1994. Prior to that, Mr. Wong was a full-time professor at San Diego State University, ITESM, and part time professor at the University of California and Virginia Tech. Mr. Wong holds an Accounting degree from Universidad de Coahuila, an MBA from ITESM, and a Ph.D. from Virginia Tech.

**Emilio Marcos Charur** (42) Arca's Director of Other Businesses since January, 2007 which includes Topo Chico, Interex (exports), Vending Machine, Jug Water and Plastic Cases operations. Prior to this, he was Arca's Treasury and Procurement Manager. He has an industrial engineering degree from ITESM and an MBA from the University of Illinois.

# BOARD OF DIRECTORS

**Manuel L. Barragan Morales** (56)1,C Chairman of the Board of Directors since 2005. Member of the Board since 2001. Chairman of the Board of Index. Former Board Member of Procor, Banregio and Papas y Fritos Monterrey. He was also an executive member at a major financial institution for 15 years.

**Javier L. Barragan Villarreal** (82) Honorary Chairman and Member of the Movimiento de Promocion Rural.

**Guillermo Alvelais Fernandez** (61)1,P Vice Chairman of the Board of Directors of Arca since 2005. Member of the Board of Directors of Arca since 2001. He was formerly a Member of the Board of Directors of Argos, an alternate Member of Grupo Financiero Sofimex as well as the Director of the Fundacion Rosario Campos de Fernandez. Currently, he is a Member of the Board of Directors of Sistema Axis.

**Emilio A. Arizpe y de la Maza** (89)1,P Vice Chairman of the Board of Directors of Arca since 2001. Chairman of the Board of Directors of Fabricas El Carmen, Compañia Hotelera del Norte, Hielo de Saltillo, Inversiones del Norte and Inmobiliaria Birarma. Chairman of the Regional Board of HSBC, Saltillo. Member of the Regional Board of HSBC, Monterrey and Chairman of the Board of Trustees of the Universidad Autonoma del Noreste. Former Chairman of the Board of Directors of Empresas El Carmen and Industrial de Plasticos Arma. Honorary Chairman of the Red Cross of Saltillo.

**Luis Lauro Gonzalez Barragan** (53)1,P Vice Chairman of the Board of Directors of Arca since 2001. Chairman of the Board of Grupo Logistico Intermodal Portuaria. Member of the Board of Index Berel and Universidad de Monterrey. Former Board Member of Procor.

**Josa Joaquin Arizpe y de la Maza** (86)1,P Member of the Board of Directors of Arca since 2001. Member of the Board and Vice President of Compañia Hotelera del Norte, Fabricas el Carmen, Inversiones del Norte and Inmobiliaria Birarma. Regional Board Member of BBVA Bancomer, HSBC and Consulting Board Member of Telefonos de Mexico.

**Miguel Arizpe Jimenez** (58) 1,C Member of the Board of Directors of Arca in 2001-2002. Secretary of the Board of Fabricas El Carmen, Inmobiliaria Birarma, Inversiones del Norte and Grupo Textil El Carmen. Member of the Regional Board of HSBC and Banamex. Former Secretary of the Board of Arma Corporativo.

**Alfonso J. Barragan Treviño** (49)1,C Member of the Board of Directors of Arca since 2002. Chairman of the Board of Directors of Eon Corporation and Eon Mexico, Movimiento de Promocion Rural and Mcliff Corporation. Former Member of the Board of Procor and Secretary of the Board of Directors of Eon Corporation and Eon Mexico.

**Eduardo J. Barragan Villarreal** (71)1 Member of the Board of Directors of Arca since 2001. Member of the Board of Promocion Rural. Chairman of the Board of Centro Convex, Pro-Cultura de Monterrey, Fideicomiso de Vida Silvestre de Nuevo Leon and Impulsora de Eventos Culturales. Former Board Member, Chief Technology Officer of Procor and Plant Manager at Bebidas Mundiales.

**Fernando Barragan Villarreal** (76)1,P Member of the Board of Directors of Arca since 2001. Member of the Board of Directors of Grupo Index and Member of the Civic Council of Parque Ecologico Chipinque. Former Board Member of Procor, Papas y Fritos Monterrey, Estructuras de Acero, Banregio and Financiera General de Monterrey. He has held several positions at Bebidas Mundiales, including that of Managing Director and Manager of Production, Maintenance and Quality Control.

**Alejandro M. Elizondo Barragan** (53)1,P Member of the Board of Directors since 2004. Mr. Elizondo Barragan is also the CFO of Alfa. He has held various positions in the corporate and steel areas during his 30-year career at Alfa. He is a member of the Board of Banregio, Nemak, Indelpro, Polioles and Alestra.

**Tomas A. Fernandez Garcia** (35)1,P Member of the Board of Directors of Arca since 2005. He is President and CEO of Original Video North America.

**Ulrich Fiehn Buckenhofer** (61)2,A Member of the Board of Directors of Arca since 2002. Former Chairman of the Board of Grupo Proagro. Member of the Board of Grupo Financiero Banamex-Accival, Bolsa Mexicana de Valores, Indeval, Asociacion Mexicana de Intermediarios Bursatiles, Seguros Banamex Aegon, Grupo Industrial Durango, John Deere, Banco Mercantil del Norte and Internacional de Ceramica. Former CEO and Board Member of Accival, Corporate Treasurer of Grupo Industrial Saltillo and Advisor to the Presidency and Member of the Executive Committee of Banamex.

**Enrique Garcia Gamboa** (51)2 Member of the Board of Directors of Arca since 2005. CEO of Industrias Alen. He has held several positions at Industrias Alen, including that of Production Manager and Chief Financial Officer. Member of the Board of Directors of Berel, Corporacion Automotriz Regional (CAR), UDEM and Regional Member of the Board of Banamex.

**Rafael Garza-Castillon Vallina** (50)1,P Member of the Board of Directors of Arca since 2001. Chairman of the Board and CEO of Distribuidores Generales, Comercializadora de Arrendamientos and Brits Motors. Member of the Board of Directors of Fomento Urbano de Chihuahua, Comercial del Noroeste, Impulsora de Bienes Raices and Grupo Novamex. Former General Manager of Embotelladora de la Frontera and Refrigeradora de Parral, as well as Director of Hieleria Juarez. Former Member of the Board of Sistemas Argos and Sistema Axis.

**Roberto Garza Velazquez** (50)1,P Member of the Board of Directors of Arca since 2001. CEO of Industria Carrocera San Roberto and a Partner and Board Member of Corporacion Mexicana de Capillas as well as Promotora Octagonal del Norte. He is also on the Boards of Grupo Index and Banca Afirme.

**Ernesto Lopez de Nigris** (46)2,C Member of the Board of Directors of Arca since 2001. Co-chairman of the Board of Directors of Grupo Industrial Saltillo where he was formerly Vice President of Operations. Member of the Board of Consejo Mexicano de Hombres de Negocios and Member of the Board of Telefonos de Mexico.

**Fernando Olvera Escalona** (74)2,A Member of the Board of Directors of Arca since 2001 and Chairman of the Audit Committee since 2002 and Chairman of the Corporate Practices Committee since November 2006. CEO of Grupo Protexa and President of Promocapital. Former Chairman of the Board of Farmacias Benavides, Member of the Board of the State National Bank of El Paso and several Mexican banks, as well as Member of the Board of Union Carbide Mexicana, Petrocel and John Deere de Mexico, among others.

**Manuel G. Rivero Santos** (55)2,A Member of the Board of Directors of Arca since 2005. Member of the Board and CEO of Banregio and Banregio Grupo Financiero and Vice President of the Mexican Banking Association from 1997–2000.

**Jorge H. Santos Reyna** (32)1,P Member of the Board of Directors of Arca since 2001. CEO of San Barr. Member of the Board of Directors of Banregio, Asociacion de Engordadores de Ganado Bovino del Noreste, Grupo San Barr, Grupo Index and USEM-Monterrey. Former Member of the Board of Procor, CAINTRA and Papas y Fritos Monterrey.

**Marcela Villareal Fernandez** (59)1,C Member of the Board of Directors of Arca since 2001. Member of the Board of Axis, Fundacion Mascareñas and Fundacion Rosario Campos. Member of the Board of Directors of Argos. Former President of El Paso Museum of Arts.

**Arturo Gutierrez Hernandez** (41) Secretary of the Board of Arca since 2001 and Director of Human Resources and Corporate Planning. Former Secretary of the Board of Directors at several Alfa companies.

Board Members:
1 Shareholder
2 Independent

Committees:
A Audit and Corporate Practices
C Compensation
P Planning

# FINANCIAL REVIEW CONTENTS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## SALES

In 2006, net sales increased 9.4% in real terms, from Ps. 15,240.6 million in 2005 to Ps. 16,672.4 million. This increase was primarily due to a 7.5% increase in total sales volume which reached 468 MUCs and a 1.8% increase in the average price per unit case in real terms.

## COST OF GOODS SOLD

Cost of goods sold increased 9.8% when compared to 2005, reaching Ps. 8,623.2 million. The cost per unit case increased 2.2% from Ps. 18.0 in 2005 to Ps. 18.4 in 2006. This was mainly a result of higher sugar prices, increased packaging costs from the rise in PET resin prices, as well as a shift in the sales mix to more non-returnable products (from 60% of the total sales mix to 64% year-over-year). The gross margin in 2006 was 48.3%, a 20 basis-point drop when compared to 2005.

## OPERATING EXPENSES

During 2006, operating expenses[1] as a percentage of sales declined from 29.6% in 2005 to 28.5% in 2006. In absolute terms, selling expenses rose 8.0% from Ps. 3,499.6 million to Ps. 3,780.1 million, year-over-year as a result of higher sales volume which led to an increase in commissions, greater costs for freight and the replacement of returnable bottles within the market, among other factors. Administrative1 expenses declined 3.5% when compared to 2005, from Ps. 1,009.3 million to Ps. 973.6 million, as a result of savings generated from the outsourcing of certain service, among other factors.

## OPERATING INCOME AND EBITDA

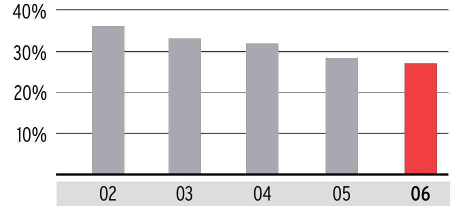
Operating income[1] rose 14.5%, from Ps. 2,879.3 million in 2005 to Ps. 3,295.6 million in 2006. The operating margin went up 90 basis points, from 18.9% to 19.8%, year-over-year.

EBITDA[1] was 12.1% higher, or Ps. 432.4 million, from Ps. 3,574.8 million in 2005 to Ps. 4,007.1 million in 2006. The EBITDA margin in 2006 was 24.0%, while in 2005 it was 23.5%.

## NON-RECURRING EXPENSES

Non-recurring expenses declined 56.5%, from Ps. 45.3 million in 2005 to Ps. 19.7 million in 2006, mainly for personnel severance packages.

Operating Expenses as a % of Revenues




1 Excluding non-recurring expenses.

## INTEGRAL FINANCING RESULT

In 2006, the integral financing result was an income of Ps. 15.2 million, below the income of Ps. 20.4 million registered in 2005. This difference was due mainly to reductions year-over-year in interest expenses and exchange rate losses.

## OTHER INCOME (EXPENSES)

In 2006 we reported Ps. 46.0 million in other income, compared to Ps. 100.3 million in 2005. In 2006 we received a tax return that resulted from the deduction of employee profit sharing provisions from previous years, and we had other income from the sale of assets.

## PROVISION FOR INCOME TAXES AND EMPLOYEES' PROFIT SHARING

The effective rate for the provision for income tax and employees' profit sharing was 33.7% in 2006 and 30.1% in 2005. Income taxes decreased from Ps. 780 million in 2005 to Ps. 770.6 million in 2006, while deferred taxes went from a credit of Ps. 68.8 million in 2005 to a charge of Ps. 159.9 in 2006. Employee profit sharing went from Ps. 167.6 million in 2005 to Ps. 190.9 million in 2006.

## NET INCOME

Net income was Ps. 2,209.5 million in 2006 or Ps. 2.74 per share, which was 8.5% higher than in 2005 despite the sharp increases in the prices of our main raw materials.

## CASH BALANCE AND OPERATING CASH FLOW

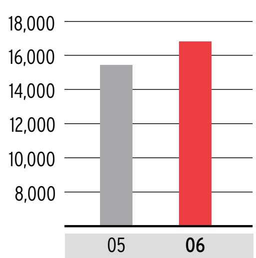
At December 31, 2006, Arca had a cash balance of Ps. 2,469.2 million and debt of Ps. 1,531.6 million, resulting in a net cash position of Ps. 937.6 million. Resources provided by operating activities increased 31.9% in 2006 due primarily to improved operating results for the year as well as strict discipline in the use of working capital.

Cash was mainly used as follows: Ps. 1,597.5 million for the payment of dividends, Ps. 1,009.5 million for investments in fixed assets and Ps. 73.3 million for reducing bank debt.

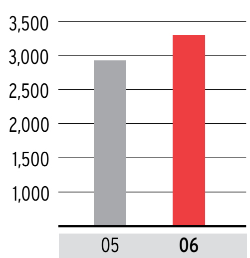
## INVESTMENTS

Investments in property, plant and equipment, net reached Ps. 1,009.5 million allocated mainly towards the expansion of installed capacity for non-returnable products, the modernization of distribution centers, construction of bottle injection and blowing facilities, regular maintenance and replacement of plants and equipment, as well as the installation of coolers and vending machines.

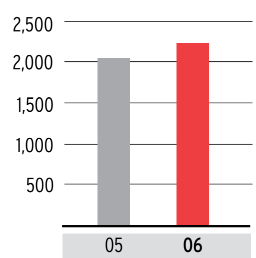
Sales
(millions of Mexican Pesos)



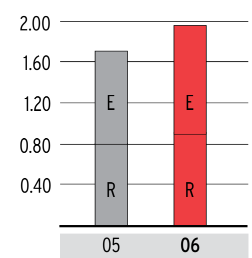

Operating Income
(millions of Mexican Pesos)




Net Income
(millions of Mexican Pesos)




Yearly Dividend Payments
(nominal pesos per share)




R= Regular
E= Extraordinary

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

# Consolidated Balance Sheets

(In millions of Mexican Pesos in purchasing power as of December 31, 2006)

| December 31, | **2006** | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | **2,469** | 2,029 | 1,918 | 1,237 |
| Accounts receivable | **690** | 545 | 478 | 488 |
| Other accounts receivable | **224** | 288 | 238 | 285 |
| Inventories | **930** | 902 | 1,005 | 1,195 |
| Prepaid expenses | **64** | 59 | 51 | 24 |
| Total current assets | **4,377** | 3,823 | 3,691 | 3,229 |
| Investment in shares | **86** | 130 | 116 | 110 |
| Property, plant and equipment, net | **8,519** | 8,189 | 8,069 | 8,028 |
| Goodwill, net | **2,187** | 2,187 | 2,170 | 2,312 |
| Other accounts receivable -- long-term | **163** | 221 | 310 | 391 |
| Other assets | **322** | 335 | 163 | 132 |
| **Total assets** | **15,654** | 14,885 | 14,518 | 14,202 |
| **Liabilities and Stockholders' Equity** | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | **11** | 12 | 13 | - |
| Suppliers | **659** | 603 | 626 | 433 |
| Other accounts payable and accrued expenses | **597** | 515 | 647 | 666 |
| Total current liabilities | **1,267** | 1,130 | 1,286 | 1,099 |
| Long term debt | **1,520** | 1,593 | 1,660 | 1,696 |
| Labor obligations | **225** | 300 | 149 | 167 |
| Employees' profit sharing | **1,286** | 1,121 | 1,158 | 1,444 |
| Excess of book value on the cost of shares | **-** | - | 3 | - |
| Total liabilities | **4,298** | 4,145 | 4,256 | 4,406 |
| Stockholders' equity: | | | | |
| Capital stock | **4,528** | 4,528 | 4,528 | 4,528 |
| Additional paid in capital | **695** | 654 | 649 | 646 |
| Retained earnings | **8,394** | 7,725 | 7,235 | 6,694 |
| Deficit from restatement | **(2,261)** | (2,167) | (2,151) | (2,073) |
| Total stockholders' equity (majority interest) | **11,356** | 10,740 | 10,261 | 9,795 |
| Minority interest | **-** | - | - | - |
| **Total liabilities and stockholders' equity** | **15,654** | 14,885 | 14,518 | 14,202 |

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

# Consolidated Statements of Income

(In millions of Mexican Pesos in purchasing power as of December 31, 2006)

| December 31, | **2006** | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Sales volume (MUC) | **468.0** | 435.6 | 416.9 | 416.9 |
| Net sales | **16,672** | 15,240 | 14,909 | 15,763 |
| Cost of sales | **(8,623)** | (7,850) | (7,561) | (7,556) |
| Gross profit | **8,049** | 7,390 | 7,348 | 8,207 |
| Selling expenses | **(3,780)** | (3,502) | (3,574) | (4,018) |
| Administrative expenses | **(974)** | (1,009) | (1,143) | (1,322) |
| Operating income (excludes non-recurring expenses) | **3,296** | 2,879 | 2,632 | 2,867 |
| Non-recurring expenses[1] | **(20)** | (45) | (157) | (336) |
| | **3,275** | 2,834 | 2,474 | 2,531 |
| Comprehensive financing cost: | | | | |
| Interest income (expense), net | **51** | 30 | (30) | (218) |
| Exchange gain (loss), net | **2** | (35) | (14) | 10 |
| Monetary position (loss) gain | **(37)** | (15) | (4) | 27 |
| | **16** | (20) | (48) | (181) |
| | **3,291** | 2,814 | 2,426 | 2,350 |
| Other income (expense) | **46** | 100 | 416 | (207) |
| Equity in (loss) income of associated companies and minority interest | **(6)** | 2 | 6 | 6 |
| Income before the following provisions: | **3,331** | 2,915 | 2,848 | 2,149 |
| Provisions for: | | | | |
| Income tax | **(930)** | (711) | (668) | (778) |
| Employees' profit sharing | **(191)** | (168) | (192) | (235) |
| Total provisions | **(1,121)** | (879) | (860) | (1,013) |
| Consolidated net income | **2,210** | 2,037 | 1,988 | 1,136 |
| Number of shares | **806,020** | 806,020 | 806,020 | 806,020 |
| Depreciation and Amortization | **712** | 695 | 793 | 821 |
| EBITDA (excludes non-recurring expenses) | **4,007** | 3,575 | 3,425 | 3,688 |
| CAPEX | **1,010** | 812 | 854 | 572 |

1 To facilitate comparative analysis, some adjustments were made to the Audited Financial Statements: 1) Sale and Administrative expenses that Arca's Management considers non-recurring, are shown separately, 2) 2003 asset write-offs were included in the "Other Income (expense)" line (see Note 2. j "Long-lived Assets" in the Audited Financial Statements).

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

# Management's Responsibility for Financial Information

Management is responsible for preparing the financial statements and all the financial information contained in this Report.

This responsibility includes maintaining the integrity and objectivity of financial records, as well as preparing the financial statements in accordance with Mexican Financial Reporting Standards (FRS).

The Company has an internal control structure whose objectives include, among other things, ensuring that Company records incorporate all transactions related to its operating activities, thus providing protection against the inappropriate use or loss of Company assets.

Management believes that the internal control structure complies with said objectives. The control structure is based on the hiring and training of qualified personnel, documented policies and procedures, and a team of internal auditors who apply rigorous auditing programs to all the Company's operations.

The financial statements were audited by PricewaterhouseCoopers, S.C. a firm of independent public accountants. Their audit was carried out in accordance with FRS and included the Company's internal control structure.

The external auditors' report is included in this Report. The Company's Board of Directors, through an auditing committee made up exclusively of directors who are not employed by the same, is responsible for ensuring that Company Management complies with its obligations in regard to the financial control of operations and the preparation of financial statements.

The Auditing Committee proposes the firm of external auditors to the Board of Directors and meets with Management, the internal auditors and the firm of external auditors on a regular basis.

The Auditing Committee has free access to the internal auditors and the firm of external auditors, with whom it meets continuously to discuss their audit work, internal controls and the preparation of financial statements.

Francisco Garza Egloff
Chief Executive Officer

Adrian Wong Boren
Chief Financial Officer

# Report of Independent Accountants

PRICEWATERHOUSECOOPERS

**To the Stockholders of Embotelladoras Arca, S. A. B. de C. V.**

Monterrey, N. L., Mexico, March 6, 2007

We have audited the consolidated balance sheets of Embotelladoras Arca, S. A. B. de C. V. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, of changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they were prepared in accordance with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the standards of financial information used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Embotelladoras Arca, S. A. B. de C. V. and subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations, their changes in stockholders' equity and their changes in financial position for the years then ended, in conformity with Mexican Financial Reporting Standards.

PricewaterhouseCoopers

Carlos Arreola Enriquez
Audit Partner

EMBOTELLADORAS ARCA, S.A.B. DE C.V. AND SUBSIDIARIES
(Formerly Embotelladoras Arca, S. A. de C. V. and subsidiaries)

# Consolidated Balance Sheets

At December 31, 2006 and 2005
(Notes 1 and 2)
(Thousands of Mexican pesos of December 31, 2006 purchasing power)

| | | 2006 | | 2005 |
|---|---|---|---|---|
| Assets | | | | |
| Current assets: | | | | |
| Cash and temporary investments | Ps. | **2,469,163** | Ps. | 2,028,839 |
| Trade accounts receivable (less allowance for doubtful accounts of Ps.15,535 in 2006 and Ps. 44,945 in 2005) | | **689,960** | | 544,645 |
| Other accounts receivable (Note 3) | | **224,291** | | 288,048 |
| Inventories (Note 4) | | **929,928** | | 901,779 |
| Prepaid expenses | | **64,203** | | 59,299 |
| Total current assets | | **4,377,545** | | 3,822,610 |
| Other long-term accounts receivable (Note 3) | | **163,535** | | 221,377 |
| Investment in shares (Note 5) | | **85,716** | | 129,652 |
| Property, plant and equipment, net (Note 6) | | **8,518,687** | | 8,188,894 |
| Goodwill, net (Note 7) | | **2,187,205** | | 2,187,205 |
| Other assets | | **321,565** | | 335,390 |
| Total assets | Ps. | **15,654,253** | Ps. | 14,885,128 |
| Liabilities and Stockholders' Equity | | | | |
| Current liabilities: | | | | |
| Suppliers | Ps. | **658,697** | Ps. | 603,028 |
| Current portion of long-term debt (Note 8) | | **11,182** | | 11,590 |
| Other accounts payable and accrued expenses | | **396,918** | | 334,648 |
| Employees' profit sharing payable (Note 13) | | **195,077** | | 180,753 |
| Income tax payable (Note 13) | | **4,728** | | - |
| Total current liabilities | | **1,266,602** | | 1,130,019 |
| Long-term debt (Note 8) | | **1,520,412** | | 1,593,257 |
| Labor obligations (Note 9) | | **225,135** | | 300,282 |
| Deferred income tax and employees' profit sharing (Note 13) | | **1,285,502** | | 1,121,387 |
| Total liabilities | | **4,297,651** | | 4,144,945 |
| Stockholders' equity (Note 11): | | | | |
| Contributed capital stock | | **4,528,182** | | 4,528,182 |
| Additional paid in capital | | **694,812** | | 653,934 |
| Retained earnings | | **8,407,606** | | 7,720,649 |
| Cumulative translation adjustment of foreign subsidiary | | **5,060** | | 4,862 |
| Charge to stockholders' equity for labor obligations | | **(18,654)** | | (918) |
| Deficit from restatement | | **(2,260,558)** | | (2,166,676) |
| Total majority interest | | **11,356,448** | | 10,740,033 |
| Minority interest | | **154** | | 150 |
| Total stockholders' equity | | **11,356,602** | | 10,740,183 |
| Contingencies and commitments (Note 10) | | | | |
| Subsequent events (Note 20) | | | | |
| Total liabilities and stockholders' equity | Ps. | **15,654,253** | Ps. | 14,885,128 |

The accompanying twenty notes are an integral part of these consolidated financial statements, which were authorized for their issuance at March 6, 2007 by the undersigned officers.

Francisco Garza Egloff
Chief Executive Officer

Adrian Wong Boren
Chief Financial Officer

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

# Consolidated Statements of Income

For the years ended December 31, 2006 and 2005
(Notes 1 and 2)
(Thousands of Mexican pesos of December 31, 2006 purchasing power)

| | | **2006** | | 2005 |
|---|---|---|---|---|
| Net sales | **Ps.** | **16,672,433** | Ps. | 15,240,151 |
| Cost of sales | | **(8,625,265)** | | (7,852,232) |
| Gross margin | | **8,047,168** | | 7,387,919 |
| Administrative expenses | | **(976,277)** | | (1,011,916) |
| Selling expenses | | **(3,794,968)** | | (3,542,025) |
| | | **(4,771,245)** | | (4,553,941) |
| Operating income | | **3,275,923** | | 2,833,978 |
| Comprehensive financial income, (expense): | | | | |
| Interest income net | | **50,531** | | 30,447 |
| Exchange gain (loss), net | | **1,867** | | (35,439) |
| Loss from monetary position | | **(37,182)** | | (15,418) |
| | | **15,216** | | (20,410) |
| | | **3,291,139** | | 2,813,568 |
| Other income, net (Note 12) | | **46,039** | | 100,315 |
| Equity in (loss) income of associated companies | | **(6,239)** | | 1,601 |
| Income before provisions for income tax and employees' profit sharing | | **3,330,939** | | 2,915,484 |
| Provisions for (Note 13): | | | | |
| Income tax | | **(930,501)** | | (711,172) |
| Employees' profit sharing | | **(190,871)** | | (167,581) |
| | | **(1,121,372)** | | (878,753) |
| Income before minority interest | | **2,209,567** | | 2,036,731 |
| Minority interest | | **(29)** | | (28) |
| Net income | **Ps.** | **2,209,538** | Ps. | 2,036,703 |
| Net income per share | | **2.74** | Ps. | 2.53 |
| Weighted average shares outstanding | | **806,020** | | 806,020 |

The accompanying twenty notes are an integral part of these consolidated financial statements, which were authorized for their issuance at March 6, 2007 by the undersigned officers.

Francisco Garza Egloff
Chief Executive Officer

Adrian Wong Boren
Chief Financial Officer

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

# Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2005
(Notes 1 and 2)
(Thousands of Mexican pesos of December 31, 2006 purchasing power)

| | | Capital Stock | | Additional paid in capital | | Retained earnings |
|---|---|---|---|---|---|---|
| Balance at December 31, 2004 previously reported | Ps. | 4,528,182 | Ps. | 649,276 | Ps. | 7,230,422 |
| Effect from deferred employees' profit sharing (Note 13 and 2. l) | | | | | | (33,991) |
| Balance at December 31, 2004, adjusted | | 4,528,182 | | 649,276 | | 7,196,431 |
| **Changes in 2005:** | | | | | | |
| Dividends declared | | | | | | (1,402,636) |
| Fund for repurchase of own shares | | | | 4,658 | | 4,602 |
| Minority interest | | | | | | |
| Tax effects from corrections to prior years (Note 10. c) | | | | | | (114,451) |
| Comprehensive income | | | | | | 2,036,703 |
| Balance at December 31, 2005 (Note 11) | | 4,528,182 | | 653,934 | | 7,720,649 |
| **Changes in 2006:** | | | | | | |
| Dividends declared | | | | | | **(1,597,475)** |
| Fund for repurchase of own shares | | | | **40,878** | | **74,894** |
| Minority interest | | | | | | |
| Comprehensive income | | | | | | **2,209,538** |
| Balance at December 31, 2006 (Note 11) | **Ps.** | **4,528,182** | **Ps.** | **694,812** | **Ps.** | **8,407,606** |

The accompanying twenty notes are an integral part of these consolidated financial statements, which were authorized for their issuance at March 6, 2007 by the undersigned officers.

Francisco Garza Egloff
Chief Executive Officer

Adrian Wong Boren
Chief Financial Officer

| Cummulative Translation adjustment of foreign subsidiary | Charge to stockholders' equity for labor obligations | Deficit from restatement | Total majority interest | Minority interest | Total stockholders' equity |
|---|---|---|---|---|---|
| Ps. 6,261 | (Ps. 1,812) | (Ps. 2,150,951) | Ps. 10,261,378 | Ps. 147 | Ps. 10,261,525 |
| | | | (33,991) | | (33,991) |
| 6,261 | (1,812) | (2,150,951) | 10,227,387 | 147 | 10,227,534 |
| | | | (1,402,636) | | (1,402,636) |
| | | | 9,260 | | 9,260 |
| | | | | 3 | 3 |
| | | | (114,451) | | (114,451) |
| (1,399) | 894 | (15,725) | 2,020,473 | | 2,020,473 |
| 4,862 | (918) | (2,166,676) | 10,740,033 | 150 | 10,740,183 |
| | | | **(1,597,475)** | | **(1,597,475)** |
| | | | **115,772** | | **115,772** |
| | | | | **4** | **4** |
| **198** | **(17,736)** | **(93,882)** | **2,098,118** | | **2,098,118** |
| **Ps. 5,060** | **(Ps. 18,654)** | **(Ps. 2,260,558)** | **Ps. 11,356,448** | **Ps. 154** | **Ps. 11,356,602** |

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

# Consolidated Statements of Changes in Financial Position

For the years ended December 31, 2006 and 2005
(Notes 1 and 2)
(In thousands of Mexican pesos in purchasing power of December 31, 2006)

| | | **2006** | | 2005 |
|---|---|---|---|---|
| **Operating activities:** | | | | |
| Consolidated net income | **Ps.** | **2,209,538** | Ps. | 2,036,703 |
| Items not affecting resources: | | | | |
| Allowance for doubtful accounts | | **5,065** | | 23,515 |
| Depreciation and amortization | | **712,438** | | 697,791 |
| Disposal of obsolete machinery and equipment | | **184,393** | | 20,175 |
| Other | | **(2,662)** | | - |
| Labor obligations | | **106,544** | | 22,714 |
| Equity in income (loss) of associated companies | | **6,239** | | (1,601) |
| Writte-off goodwill | | **-** | | (2,719) |
| Deferred income tax | | **159,909** | | (68,830) |
| | | **3,381,464** | | 2,727,748 |
| Changes in working capital: | | | | |
| Trade and other accounts receivable | | **(28,781)** | | (51,620) |
| Inventories | | **(91,221)** | | 89,427 |
| Prepaid expenses and other assets | | **(2,237)** | | (5,920) |
| Suppliers | | **55,669** | | (23,422) |
| Tax effects from corrections to prior years | | **-** | | (114,451) |
| Other accounts payable and accrued expenses | | **(90,424)** | | (177,115) |
| Resources provided by operating activities | | **3,224,470** | | 2,444,647 |
| **Financing activities:** | | | | |
| Long term debt | | **(73,253)** | | (68,144) |
| Dividends declared | | **(1,597,475)** | | (1,402,636) |
| Fund for repurchase of own shares | | **115,772** | | 9,260 |
| Resources used in financing activities | | **(1,554,956)** | | (1,461,520) |
| **Investing activities:** | | | | |
| Property, plant and equipment, net | | **(1,193,894)** | | (811,665) |
| Sale of shares of associated company | | **6,887** | | - |
| Goodwill from the acquisition of subsidiaries | | **-** | | (17,319) |
| Investment in shares of associated company | | **-** | | (14,014) |
| Intangible assets | | **(42,381)** | | (28,220) |
| Cumulative translation adjustment of foreign subsidiary | | **198** | | (1,399) |
| Resources used in investing activities | | **(1,229,190)** | | (872,617) |
| Increase in cash and temporary investments | | **440,324** | | 110,510 |
| Cash and temporary investments at beginning of year | | **2,028,839** | | 1,918,329 |
| Cash and temporary investments at end of year | **Ps.** | **2,469,163** | Ps. | 2,028,839 |

The accompanying twenty notes are an integral part of these consolidated financial statements, which were authorized for their issuance at March 6, 2007 by the undersigned officers.

Francisco Garza Egloff
Chief Executive Officer

Adrian Wong Boren
Chief Financial Officer

## NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

Embotelladoras Arca, S. A. de C. V. (Arca) is a company whose main activity consists of the production, distribution and sale of soft drinks of brands owned by The Coca-Cola Company (TCCC), as well as other brands owned by Arca and third parties. Under a bottling agreement with TCCC, Arca has exclusive rights to carry out these activities with Coca-Cola products in territories located in northern Mexico, where it operates with a product portfolio of private and third party labels, including soft drinks and carbonated and non-carbonated bottled water in various presentations.

Arca operates through wholly-owned subsidiaries in which it controls, directly or indirectly, the majority of common stock. The term "the Company", as used in this report, refers to Arca and its subsidiaries.

At a General Extraordinary Meeting held on November 16, 2006, the stockholders changed the name of Embotelladoras Arca, S. A. de C. V. to Embotelladoras Arca, S. A. B. de C. V. They also changed the by-laws to reflect the new corporate organization and rights of the minority stockholders, as required by the new Securities Market Law published on December 30, 2005.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared and comply fully with Mexican Financial Reporting Standards (NIFs) and are stated in Mexican pesos of December 31, 2006 purchasing power.

The consolidated financial statements were authorized for issuance on March 6, 2007, by the officers whose signatures appears at the and of these Notes.

Following is a summary of the main accounting policies followed by Arca in the preparation of these consolidated financial statements:

### a) Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of all subsidiaries in which Arca has a controlling interest. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. The consolidation was elaborated based on the financial statements of the following subsidiaries of which Arca owns, directly or indirectly, 100% of the capital stock, except where otherwise indicated:

**Manufacturing companies**
Bebidas Mundiales, S. A. de C. V.
Compañía Topo Chico, S. A. de C. V.
Embotelladora Tamaulipeca, S. A. de C. V.
Sello Tapa, S. A. de C. V.
Interex, Corp.
Bebidas Arca, S. A. de C. V.
Embotelladoras del Norte de Coahuila, S. A. de C. V.
Compañía Embotelladora del Pacífico, S. A. de C. V.
Compañía Embotelladora de Baja California Sur, S. A. de C. V.
Industrial de Plásticos Arma, S. A. de C. V.
Embotelladora de la Frontera, S. A. de C. V.
Embotelladora de Chihuahua, S. A. de C. V.

Compañía Embotelladora de Culiacán, S. A. de C. V.
Embotelladora de Mexicali, S. A. de C. V.
Embotelladora Pitic, S. A. de C. V.
Agua Purificada Arca, S. A. de C. V.
Productora y Comercializadora de Bebidas Arca, S. A. de C. V.

**Holding, real estate or service companies**
Publicidad Eficaz, S. A. de C. V.
Publicidad y Servicios Arca, S. A. de C. V.
Arca Corporativo, S. A. de C. V.
Desarrolladora Arca, S. A. de C. V.
Embotelladoras Argos, S. A. (99.68%)
Purificadora y Comercializadora SierrAzul, S. A. de C. V.

**b) Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the information shown in the financial statements at December 31, 2006 and 2005.

**c) Recognition of the effects of inflation**

The consolidated financial statements have been prepared in accordance with Statement B-10, "Recognition of the Effects of Inflation on Financial Information", as amended, issued by the Mexican Institute of Public Accountants (MIPA). Statement B-10 provides guidance for the recognition of the effects of inflation.

Statement B-10 requires restatement of all financial statement items to pesos of the most current purchasing power. For comparative purposes, the consolidated financial statements of prior years have been restated to pesos as of December 31, 2006.

The factors derived from the National Consumer Price Index (NCPI) used to restate prior years' financial statements were 4.05% and 3.33% for 2006 and 2005, respectively.

The following items are the result of the recognition of the effects of inflation on the financial information:

i) Comprehensive financial income, (expense)

Represents the results of financing in periods of inflation, consisting of net interest, net foreign exchange gains or losses and gain or loss from monetary position. Gains (losses) from monetary position represent the effect of inflation, as measured by the NCPI, on the company's net balance of monetary assets and liabilities at the beginning of each month as expressed in local currency. If monetary liabilities exceed monetary assets, there is a gain from monetary position. Conversely, if monetary liabilities are less than monetary assets, there is a loss from monetary position.

ii) Deficit from restatement

This component represents the difference between the replacement cost value of non-monetary assets and the historical cost of those assets restated for inflation, as measured by NCPI factors.

iii) Restatement of stockholders' equity

The capital stock, paid-in capital and retained earnings accounts include the effect of restatement, determined by applying NCPI factors from the dates on which capital was contributed and earnings were generated, respectively. Such restatement reflects the amounts necessary to maintain the contributions and accumulated results in pesos of December 31, 2006 purchasing power.

iv) Statement of changes in financial position

Statement B-12, "Statement of changes in financial position" issued by the MIPA, specifies the appropriate presentation of the statement of changes in financial position when financial statements have been stated in constant pesos of purchasing power as of the date of the last balance sheet. Statement B-12 requires identifying the origin and application of resources through the differences between initial and final balances of the balance sheet in constant pesos, excluding the effects from holding non-monetary assets.

**d) Cash and temporary investments**

Arca considers all highly liquid temporary investments with original maturities of three months or less to be cash equivalents.

**e) Inventories and cost of sales (Note 4)**

Raw materials, finished products and materials and spare parts are stated at average cost, which due to high inventory turnover approximates the estimated replacement cost, or market value. Cost of sales is stated at estimated replacement cost at the time of the sale.

Cost of sales consists of raw materials (principally sugar, water, soft drink concentrate and packaging materials), together with certain labor expenses for production such as employees and overhead expenses, and depreciation expense attributable to production facilities.

Bottles and cases are recorded at acquisition cost and restated to their replacement cost.

Breakage of bottles and delivery cases that are no longer acceptable for use in accordance with age standards and/or conditions established by Arca, are withdrawn and charged to income as identified. The useful life of returnable glass and plastic bottles is estimated at an average of four years and one year, respectively.

**f) Investment in securities (Note 5)**

Investments in shares of affiliated companies, in which the percentage of ownership is between 10% and 50% of the investees' voting stock, or where Arca exercises significant influence, are accounted for by the equity method. Investments in nonmarketable common stock with ownership of less than 10% of the investees' voting stock are recorded at acquisition cost restated by applying factors derived from NCPI.

**g) Property, plant and equipment, net (Note 6)**

Property, plant and equipment are recorded at acquisition cost, restated by applying the inflation factors derived from the NCPI to the historical cost. When assets are retired or otherwise disposed of, the restated cost and accumulated depreciation are removed from the related accounts and any resulting gain or loss is recorded in income in the item "Other income, net". (See Note 12).

Depreciation is calculated based upon the restated carrying value of the assets and is recorded using the straight-line method based on the estimated useful lives of the assets. Annual rates applied to restated amounts are as follows:

| | |
|---|---|
| Buildings | 2% |
| Machinery and equipment | 8% |
| Transportation equipment | 10% |
| Refrigerators and sales equipment | 10% |
| Computer equipment | 25% |
| Office equipment | 10% |

For assets showing loss from impairment, see paragraph j. below.

**h) Goodwill (Note 7)**

On January 1, 2005, the standards contained in Statement B-7 "Business acquisitions" issued by the MIPA became effective. This Statement eliminates the amortization of goodwill.

The amounts recorded as goodwill are periodically evaluated in relation to the operating performance and future discount cash flows which are subject to testing for impairment on an annual basis, or earlier in the event circumstances occur that indicate the existence of a possible impairment.

This item represents the excess of cost over the book value, or fair value, of subsidiaries acquired, and is expressed at its restated value by applying factors derived from the NCPI to the historical cost.

**i) Other assets**

Other assets represent services, goods or rights, which are amortized over the period in which they are estimated to yield profits. Other assets are evaluated periodically as to their ability to continue yielding future profits. The main concepts comprised in this item correspond to software licenses, intangible assets and labor obligations. (See Note 9).

This item also includes intangible assets in respect of Arca's private labels, which are stated at their historical cost, representing expenditures for the registration of such labels before the corresponding authority. This item may significantly differ from its market value.

**j) Long-lived assets**

The Statement C-15 "Impairment in the Value of Long-Lived Assets and their Disposal" establishes, among other things, the general criteria for the identification of certain events representing evidence of a potential impairment in the value of long-lived assets, tangible and intangible, included goodwill. It also provides a guide for the calculation and recognition of impairment losses and their reversal and establishes the corresponding presentation and disclosure requirements.

As a result of the application of Statement C-15, the Company performs tests on its property, plant and equipment and intangibles with a definitive useful life, when certain facts and circumstances point to the fact that the recorded value of such assets may not be recovered. In the case of goodwill the company evaluates its recoverability on an annual basis.

The recoverable value of assets maintained by the Company for use in its operations is determined through the net estimated discounted cash flow that is expected to be generated by the assets or the net estimated sales price, whichever is greater.  When required, an impairment loss is recognized for the excess in the net value recorded over the estimated recovery value of the assets.  The net sales price is determined based on market value or on the value of transactions with similar assets, less the estimated cost of disposal.

**k) Labor obligations (Note 9)**

In accordance with Mexican Labor Law, employees are entitled to a seniority premium after 15 years of service or upon dismissal, disability or death. Under Statement D-3, "Labor Obligations", the actuarially determined projected benefit obligation is computed using estimates of salaries that would be in effect at the time of payment. Personnel not yet eligible for seniority premiums are also included in the determination of the obligation with necessary adjustments made in accordance with the probability that these employees will reach the required seniority.

The cost of the employees and workers' retirement plans (pension plans, seniority premiums and postretirement medical benefits), both formal and informal, established in each subsidiary, is recognized as an expense in the year in which the services are rendered, in accordance with studies by independent actuaries using the projected unit credit method.

Other payments based on seniority to which employees are entitled in case of dismissal or death, in accordance with the Federal Labor Law, are recorded in income for the year in which they are accrued.

From January 1, 2005 onwards the Company adopted the amendments to Statement D-3 "Labor liabilities". These amendments provide additional valuation, presentation and recording rules for recognition of benefits at termination of employment for causes other than from restructuring. At January 1, 2005, the adoption of these amendments gave rise to a transition liability, which will be amortized over the average remaining service life of the employees. The adoption of these amendments had no significant effect on the accompanying financial statements.

**l) Income tax, asset tax and employees' profit sharing (Note 13)**

Income tax is recorded by the comprehensive asset-and-liability method, which consists of recognizing deferred tax on all temporary differences between the book and tax values of assets and liabilities.

Deferred employees' statutory profit sharing is recorded only in respect of those temporary differences between book income and income adjusted for tax purposes which it may reasonably be presumed will result in a future liability or benefit.

**m) Financial instruments (Note 17)**

The investments on derivative financial instruments are for hedging purposes with respect to adverse fluctuations in interest rates on bonds.  They are recorded as assets and liabilities at their fair value.

Interest derived from these financial instruments is recorded in the statement of income as accrued.

**n) Fund for repurchase of own shares**

Shares acquired are shown as a decrease in the fund for repurchase of own shares which are included in the financial statements in the retained earnings and are valued at their restated acquisition cost, by applying factors derived from the NCPI to the historical cost. Dividends received are recorded by decreasing their restated cost.

In the case of the sale of shares, any difference between the amount obtained and the restated cost of such shares is recognized within the Additional paid-in capital.

Shares not resold in the market within a year following their acquisition date will be cancelled.

**o) Revenue recognition**

Revenues are recognized upon shipment to and acceptance by Arca's customers, or when both title and the risk of ownership have been transferred to the customer.

From time to time, Arca gives sales discounts to retailers in connection with launching a new product or special promotion. In addition, sales discounts also may be granted to large retailers. These promotional payments are accounted for as a reduction in revenue.

**p) Selling and administrative expenses**

Selling expenses consist primarily of marketing and advertising expenditures, commissions and expenses of sales personnel, breakage of bottles in the distribution process, and depreciation, repairs and fuel costs for the fleet of trucks.

Shipping and handling expenses include the cost of trucks for delivery of products to customers, and are recorded as selling expenses.

Commissions to salesmen are recorded as selling expenses too.

Administrative expenses consist primarily of depreciation of the administrative offices, wages and benefits for administrative personnel, and professional and other fees.

**q) Advertising and refrigeration equipment and incentive payments from TCCC**

Advertising and refrigeration equipment costs are recorded in income and in fixed assets, as incurred respectively. Regional campaigns must be approved by The Coca Cola Export Corporation branch in Mexico (CCM). CCM generally pays up to 50% of the cost of the campaigns of Coca-Cola products and 40% of the cost of refrigeration equipment.

### r) Foreign currency transactions (Note 14)

At December 31, 2006 and 2005, the exchange rate was nominal Ps10.87 and Ps10.71 to the US dollar, respectively.

Transactions denominated in foreign currency are recorded at the exchange rate in effect at the date of the transaction. Assets and liabilities in foreign currency are translated into Mexican pesos at the exchange rate in effect as of the balance sheet date. Exchange differences resulting from such translations are recognized in income for the year.

### s) Net income per share

Earnings per share are computed on the basis of the weighted average number of common shares outstanding during the year. For the years ended December 31, 2006 and 2005, there were no effects arising from potentially dilutive shares. In accordance with Statement B-14, "Income per share", this caption represents the net income corresponding to each share of Arca's capital stock.

### t) Concentration risk

Financial instruments that potentially subject Arca to significant concentration of credit risk consist primarily of cash and cash equivalents, trade accounts receivable and other accounts receivable.

Arca maintains its cash and temporary investments with various major financial institutions. They are mainly invested in short-term investments and money market accounts.

Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers throughout the states of northern Mexico where Arca operates. Arca maintains allowances for doubtful accounts based on the expected collectibility.

As of December 31, 2006 and 2005, approximately 94% of Arca's net sales consisted of products sold under trademarks owned by TCCC. The expiration date of the new bottling agreement with TCCC is 2014, with the possibility of renewal.

During Arca's 80-year business relationship, TCCC has never failed to renew the bottling agreement with Arca. Management believes that TCCC will continue to renew the bottling agreement upon its expiration date, but can give no assurance that the bottling agreement will be renewed in the future. If TCCC fails to renew the bottling agreement, Arca's business and results of operations could be adversely affected.

Additionally, under the bottling agreement, TCCC exclusively supplies the concentrates and syrups used in the manufacturing of all the products sold under its proprietary trademarks and has the ability to unilaterally set the price of such products. If TCCC significantly increased the prices of concentrate for soft drinks, Arca's results of operations could be adversely affected.

### u) Financial lease (Note 18)

The financial lease investment at the beginning of the year includes the sum of their minimum payments plus the residual value and is recorded as an account receivable. The difference between the investment and its present value is recorded as a deferred credit, representing financial income to be earned, which is applied to income so as to produce a yield rate (2%) over unpaid balances.

The discount rate used by the Company to determine the present value is 7.2%, and it represents the interest rate implicit in the lease. If this rate were lower than the current market rate, the latter would be used.

The cost of the leased property minus the present accrued residual value plus any initial cost is charged to cost of sales in the same period in which the sale is recognized.

**v) Comprehensive income**

Comprehensive income is represented by the net income plus the gain or loss from holding non-monetary assets, the translation adjustment arising in connection with foreign subsidiary, and items required by specific accounting standards to be reflected in stockholders' equity but which do not constitute capital contributions, reductions or distributions. It is restated on the basis of NCPI factors.

Comprehensive income comprised the following:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| Net income | **Ps** | **2,209,538** | Ps. | 2,036,703 |
| Cumulative translation adjustment of foreign subsidiary | | **198** | | (1,399 ) |
| Charge to stockholders' equity for labor obligations (Note 9) | | **(17,736 )** | | 849 |
| Loss from holding non-monetary assets | | **(93,882 )** | | (15,725 ) |
| Comprehensive income, net | **Ps** | **2,098,118** | Ps. | 2,020,473 |

## NOTE 3 - OTHER ACCOUNTS RECEIVABLE, SHORT AND LONG-TERM

Other short and long-term accounts receivable are analyzed as follows:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| Short-term accounts receivable: | | | | |
| Amcor PET Packaging de México, S. A. de C. V. (Amcor) (1) | **Ps** | **65,661** | Ps | 68,248 |
| Sundry Debtors | | **158,630** | | 219,800 |
| | **Ps** | **224,291** | Ps | 288,048 |
| Long-term accounts receivable: | | | | |
| Amcor (1) | **Ps** | **163,535** | Ps | 216,045 |
| TV Azteca Noreste, S. A. de C. V. (2) | | **-** | | 5,332 |
| | **Ps** | **163,535** | Ps | 221,377 |

(1)Total balance is Ps.229,196 (Ps. 284,293 in 2005) derived from the sale of injection and blowing assets through a financial lease program. See Note 18.

(2)This was the balance of a commercial loan and publicity agreement in the amount of US$1,500 entered into with TV Azteca Noreste, S. A. de C. V., with annual payments that started in September 2005.

## NOTE 4 - INVENTORIES

Inventories consist of the following:

| December 31, | | 2006 | | 2005 |
|---|---|---|---|---|
| Raw materials | **Ps** | **168,420** | Ps | 163,457 |
| Finished products | | **234,876** | | 202,214 |
| Materials and spare parts | | **171,163** | | 163,971 |
| Bottles and cases | | **337,360** | | 340,938 |
| Advances to suppliers and other | | **18,109** | | 31,199 |
| | **Ps** | **929,928** | Ps | 901,779 |

## NOTE 5 - INVESTMENT IN SHARES

The investment in shares consisted of the following:

| December 31, | % stock ownership | | 2006 | | 2005 |
|---|---|---|---|---|---|
| Industria Envasadora de Querétaro, S. A. de C. V. (1)* | 13.5% in 2006 and 23.58% in 2005 | **Ps.** | **65,610** | Ps. | 106,309 |
| Promotora Mexicana de Embotelladoras, S. A. de C. V. (1) | 20.00% | | **10,488** | | 9,323 |
| Servicios Integrados para la Industria Refresquera, S. A. de C. V. (2) | 0.55% | | **6** | | 6 |
| Compañía de Servicios de Bebidas Refrescantes, S.A. de C.V. (1)** | 17.00% | | **9,612** | | 14,014 |
| | | **Ps.** | **85,716** | Ps, | 129,652 |

*In a Board Meeting held on May 23, 2006 the General Director was authorized to sell 50,300 shares of Envasadora de Queretaro, S.A. de C.V., which generated an accounting profit of Ps.6,889 at a consolidated level , classified as other income at December 31, 2006.

**In February 2, 2005, Arca jointly with 13 Mexican bottling companies and the Inmex Corporation, set up a Mexican company called Compañía de Servicios de Bebidas Refrescantes, S.A. de C.V. (Salesko). The object of this company is to manufacture, sell and distribute products in supermarkets, hypermarkets, price clubs, convenience stores and regional and local pharmacy chains, non-carbonated drinks under the TCCC brand, and/or licensed to the latter by third parties, as well as the rendering of all types of marketing and logistics services, excluding those relative to purified water. The capital of this company fully paid and subscribed by Arca amounted to Ps.8 for the fixed portion and Ps.16,992 for the variable portion, representing 17% of the total capital of Salesko.

(1) These investments are stated by applying the equity method.
(2) This investment is stated by applying factors derived from the NCPI to the restated historical cost.

## NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

| December 31, | **2006** | 2005 |
|---|---|---|
| Land | **Ps 1,561,359** | Ps. 1,529,783 |
| Buildings | **3,381,136** | 3,064,313 |
| Machinery and equipment | **5,442,415** | 5,481,639 |
| Transportation equipment | **2,731,754** | 2,694,245 |
| Refrigerators and sales equipment | **1,864,541** | 1,703,628 |
| Computer equipment | **312,443** | 299,406 |
| Office equipment | **330,241** | 324,240 |
| Construction in progress and other | **225,286** | 259,012 |
| | **15,849,175** | 15,356,266 |
| Accumulated depreciation | **( 7,330,488 )** | ( 7,167,372 ) |
| | **Ps 8,518,687** | Ps. 8,188,894 |

Depreciation charged to income in 2006 and 2005 was Ps.679,708 and Ps.671,195, respectively.

The Company's management has deemed it, necessary to set up provisions for the closing or temporary suspension of some production lines. At December 31, 2006 the company used the total provision of Ps.54,000 maintained at December 31, 2005 in Bebidas Arca, S. A. de C. V. to write down the corresponding assets.

## NOTE 7 - GOODWILL

The goodwill is analyzed as follows:

| December 31, | **2006** | 2005 |
|---|---|---|
| a) Recorded in acquired subsidiaries | **Ps 1,498,016** | Ps 1,498,016 |
| b) Recorded by Arca | **1,367,289** | 1,367,289 |
| | **2,865,305** | 2,865,305 |
| Accumulated amortization through December 31, 2004 | **( 678,100 )** | ( 678,100 ) |
| | **Ps 2,187,205** | Ps 2,187,205 |

Due to the application of Statement B-7, the company ceased to amortize goodwill as from January 1, 2005. This had represented an annual charge of approximately Ps.135,000 to income.

## NOTE 8 - SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt are summarized as follows:

| December 31, | | 2006 | | 2005 |
|---|---|---|---|---|
| Bonds | **Ps** | **1,500,000** | Ps | 1,560,750 |
| Bank loan | | **31,594** | | 44,097 |
| | | **1,536,594** | | 1,604,847 |
| Current portion of long-term debt | | **(11,182 )** | | (11,590 ) |
| Long-term debt | **Ps** | **1,520,412** | Ps | 1,593,257 |

Bonds were issued for a total of Ps.1,500,000 (nominal), on November 7, 2003. These bonds correspond to the first part of a deposit program for a total of Ps.5,000,000 (nominal). The deposit consisted of an issue in the amount of Ps.1,000,000 (nominal) for a 5-year term with a 182-day variable CETES interest rate plus 88 basis points, and another issue for an amount of Ps.500,000 (nominal) for a 7-year term with an 8.8% fixed interest rate.

Expenses incurred from the issuance of bonds amounted to Ps.9,092, which were capitalized are being amortized over five-year period. In 2006, the amortization of those expenses amounted to Ps.1,864 (Ps.1,948 in 2005) and is included in "Administrative expenses."

On February 4, 2004, Arca entered into two loan agreements with Deutsche Bank Aktiengesellschaft (DBA) for a period of 5 and 6 years in the amounts of US$5,188 and US$1,050, respectively. Both loans were agreed at the six-month LIBOR interest rate plus to .50 %basis points, with semiannual amortizations commencing June 2004. These loans were obtained to finance the acquisition of a bottling line for non-soft drinks in disposable bottles, acquired from Krones AG, Neutraubling, Germany. These loan agreements contain covenants, mainly regarding the compliance with the delivery of financial information, notification of relevant events, etc. Failure to comply with the aforementioned covenants in a specific term to the satisfaction of the bank could represent a cause for early maturity. At the date of issuance of these financial statements, Arca was in compliance with these covenants and commitments.

At December 31, 2006, the balance payable to DBA amounted to US$2,511 and US$406, respectively. (US$3,347 and US$609 in 2005) This balance is stated in Mexican pesos in the financial statements at Ps.31,594 (Ps.44,097 in 2005).

## NOTE 9 - LABOR OBLIGATIONS

Arca has several employees' benefit plans (see Note 2. k). The valuation of the liabilities for employee retirement plans (pensions, seniority premiums and postretirement medical benefits), formal or informal, covers all employees included in the plans, and is based primarily on their years of service, present age and their estimated salary at the retirement date.

Most of subsidiaries of Arca's subsidiaries make voluntary contributions from time to time to fund the pension, postretirement and seniority premium plans, which contributions are tax deductible. As of December 31, 2006 and 2005, the assets of the pension, postretirement and seniority premium trusts are invested in bonds and securities issued by the Mexican Government, debt instruments, investment funds or other securities approved by the National Banking and Securities Commission (CNBV) under applicable tax regulations.

The following information shows the changes in labor obligations and coverage through funds for the years ended December 31, 2006 and 2005 relative, to the balances shown in the consolidated balance sheets.

Following is a summary of the principal consolidated data relative to these obligations:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| **Concept:** | | | | |
| Accumulated benefit obligation | **Ps** | **505,635** | Ps | 382,194 |
| Accumulated net liability (2) | **Ps** | **224,736** | Ps | 285,310 |
| Projected benefit obligation | **Ps** | **855,805** | Ps | 731,123 |
| Transition liability | | **(244,404 )** | | (203,423 ) |
| Unamortized actuarial gains and losses | | **(119,322 )** | | (93,668 ) |
| Plan assets | | **(436,424 )** | | (320,685 ) |
| Projected net liability (1) | **Ps** | **55,655** | Ps | 113,347 |
| Minimum additional liability (2) | **Ps** | **169,350** | Ps | 171,800 |
| Intangible asset | | **(150,696 )** | | (168,805 ) |
| Amount charged to stockholders' equity | **Ps** | **18,654** | Ps | 2,995 |

(1)This concept includes projected net assets for benefits of Ps.7,226 in 2005.
(2)These concepts correspond to the sum of the amounts determined for each one of the subsidiaries that have personnel for each of the plans and benefits established by them.

| December 31, | **2006** | 2005 |
|---|---|---|
| **Average remaining service life (in years):** | | |
| Pensions | **20** | 19 |
| Seniority premiums | **16** | 15 |
| Postretirement benefits | **13** | 12 |
| Dismissal indemnities | **16** | 16 |

The net service cost for the year consisted of the following:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| **Concept:** | | | | |
| Service cost | **Ps** | **51,472** | Ps | 44,160 |
| Financial cost | | **41,172** | | 34,666 |
| Expected return on assets | | **( 20,056 )** | | (15,829 ) |
| Amortization of net transition liability | | **37,627** | | 37,683 |
| Amortization of actuarial gains and losses | | **1,754** | | 2,900 |
| Effect of extinction of obligations | | **(5,425 )** | | 513 |
| Net cost for the period | **Ps** | **106,544** | Ps | 104,093 |

The transition liability and actuarial gains and losses are recorded through charges to income by the straight-line method over the average remaining service life of the employees expected to receive the benefits.

The following actuarial assumptions were used to determine the present value of accumulated plan benefits for pension plans, postretirement benefits and seniority premiums, in real terms (excluding inflation effects):

| December 31, | 2006 | 2005 |
|---|---|---|
| Weighted discount rate | **2%** | 5% |
| Estimated return on plan assets | **6.5%** | 6% |
| Salary increase rate | **1%** | 1.5% |

## NOTE 10 - CONTINGENCIES AND COMMITMENTS

### a) Bottling agreements

The bottling agreement entered into with TCCC provides that Arca may not bottle any products other than Coca-Cola products, except for those expressly authorized under the bottling agreement. Arca is currently bottling and distributing some other products under its own brand names and some products from third parties not contemplated under the bottling agreement. From time to time Arca has had discussions with representatives of TCCC regarding its production and distribution of the products that are not expressly authorized under the applicable bottling agreement. At this date, TCCC has not taken any action under the bottling agreement or otherwise attempted to restrict or prevent Arca's production and distribution of these products. In the event that TCCC determines in the future to take any such action, under the terms of the bottling agreement it must first provide notice to Arca and an opportunity to cure any default under the bottling agreement in a given period.

### b) The Mexican Antitrust Commission

On February 22 and March 3, 2000 Pepsi-Cola Mexicana, S. A. de C. V. and several other companies filed a complaint with the Mexican Antitrust Commission (MAC), accusing TCCC and its Mexican bottlers, including Arca, of engaging in relative monopolistic practices. In June and December, 2005, the MAC resolved that Coca-Cola bottlers have allowed certain commercial practices that constitute violations to the Federal Antitrust Law, as a result of which it imposed a fine of approximately Ps.137,000.

Arca filed a request for injunction against these resolutions and other acts of the MAC, which are under review by the courts. The legal advisors of Arca consider that there are sufficient bases to consider that the final resolution of this issue will prove favorable to the Company.

### c) Contingent liabilities

At December 31, 2006 and 2005 Arca was contingently liable for differences in taxes that could be derived from the possible review of the tax returns filed before tax authorities and from different criteria between the Company and tax authorities for the interpretation of the legal provisions. In this sense, during 2005 the Company had to make payments of Ps.114,451, which correspond to corrections from prior years.

**d) Commitments**

**Information technology services agreement**

At May 30, 2005, Arca signed an outsourcing contract for information technology services with EDS de México, S.A. de C.V. (EDS), for a 5-year period: among the contracted services are the operation, administration and/or maintainance of the technology used by Arca in its businesses and those of its subsidiaries. As a result of the foregoing, Arca will make payments in the amount of US$16,002 as follows:

| | | | |
|---|---|---|---|
| (1) | May 2007 | US$ | 4,522 |
| (2) | May 2008 | | 4,282 |
| (3) | May 2009 | | 3,706 |
| (4) | May 2010 | | 3,492 |
| | | US$ | 16,002 |

**Famosa**

At April 30, 2004, Arca entered into a supply agreement for a period of eight years for the supply of metallic crowns to Fábricas Monterrey, S. A. de C. V. (Famosa), subsidiary of Femsa Empaques, S. A. de C. V. This agreement establishes that as from the seventh year of the agreement Famosa shall have the option of acquiring the assets owned by Arca used in the production of metallic crowns, at a sales price to be established when the agreement expires.

## NOTE 11 - STOCKHOLDERS' EQUITY

As of December 31, the stockholders' equity consists of the following:

| | **2006** | | | 2005 |
|---|---|---|---|---|
| | **Historical value** | **Restatement** | **Total** | |
| Stockholders' equity | **Ps 50,000** | **Ps 4,478,182** | **Ps 4,528,182** | Ps 4,528,182 |
| Additional paid in capital | **557,152** | **137,660** | **694,812** | 653,934 |
| | **607,152** | **4,615,842** | **5,222,994** | 5,182,116 |
| Retained earnings | **6,960,791** | **1,446,815** | **8,407,606** | 7,720,649 |
| Cumulative translation adjustment of foreign subsidiary | **5,060** | **-** | **5,060** | 4,862 |
| Charge to stockholders' equity for labor obligations | **(18,654 )** | **-** | **(18,654)** | (918 ) |
| Deficit from restatement | **-** | **(2,260,558)** | **(2,260,558)** | (2,166,676 ) |
| | **6,947,197** | **(813,743)** | **6,133,454** | 5,557,917 |
| Total majority interest | **7,554,349** | **3,802,099** | **11,356,448** | 10,740,033 |
| Minority interest | **154** | **-** | **154** | 150 |
| Total stockholders' equity | **Ps 7,554,503** | **Ps 3,802,099** | **Ps 11,356,602** | Ps 10,740,183 |

The authorized capital stock is variable with a fixed minimum of Ps. 46,360, and a variable portion that may not exceed ten times the fixed portion. Arca's capital stock is represented by a single series of shares of common stock, with no par value, issued in registered form, and without ownership restrictions. All the shares of capital stock have identical rights and obligations.

As of December 31, 2006 and 2005, Arca's capital stock consisted of the following:

| | Number of shares |
|---|---|
| Subscribed fixed capital | 434,066,289 |
| Subscribed variable capital | 371,953,370 |
| Authorized unsubscribed capital | 118,206,749 |
| | 924,226,408 |

On listing its shares in the BMV, Arca is bound to comply with the legislation established in the Stock Market Law (LMV).

In General Ordinary Meetings held on April 4 and November 16, 2006, the stockholders agreed to distribute a dividend of Ps.0.85 and Ps.1.10 per share, respectively. The amount distributed was Ps.1,597,475.

In General Ordinary Meetings held on April 26 and November 3, 2005, the stockholders agreed to distribute a dividend of Ps.0.80 and Ps.0.85 per share, respectively. The amount distributed was Ps.1,402,636.

In a meeting held on April 23, 2002, the stockholders approved the maximum amount of resources that could be destined to the purchase of Arca own shares at Ps.400,000 (nominal), which was ratified in the stockholders' meeting held on April 4, 2006. At December 31, 2006, the total amount of shares held in treasury was 12,400, equal to Ps.419 (3,430,500 shares equal to Ps. 82,456 in 2005). At the date of issuance of these consolidated financial statements, the market value of Arca's shares was Ps.39.50.

Some family-group shareholders have transferred to a voting trust established with Banco Mercantil del Norte and Grupo Financiero Banorte, S.A., Institución de Banca Múltiple, as trustee, an aggregate of 427,190,419 shares of common stock, representing 53% of Arca's outstanding capital stock. The voting trust is designed to permit shares held by it to be voted as a single group in all shareholder's meetings. The voting trust has a term of 30 years. Pursuant to the voting trust agreement, the shares held in trust will be voted by the trustee pursuant to the instructions of a technical committee or the settlors. For purposes of the delivery of any voting instructions to the trustee, the technical committee shall be subject to the following rules and procedures:

- Any voting instructions with respect to certain material decisions must have been approved by the favorable vote of settlors representing at least 85% of the shares held in trust, including any amendment to Arca's by-laws, an increase in its capital stock, dividend distributions in an amount greater than 30% of the net profits of the previous fiscal year, any merger or consolidation, the appointment of the chairman or any vice chairman of the board of directors, Arca's dissolution, the extension of Arca's term, the issuance of preferred shares, the amount Arca may use to buy its own shares, acquisition of companies whose principal business is different from that of Arca's subsidiaries and whose relevant transaction value exceeds 20% of Arca's capital, the fees to directors and auditor, the appointment of a new auditor and any other matter to be voted upon in an extraordinary shareholder's meeting; and

- Any voting instructions with respect to all other matters must have been approved by the favorable vote of settlors representing at least 65% of the shares held in trust.

Any settlor may, at any time, withdraw his or her shares from the trust. In the event any settlor withdraws any shares from the trust, the remaining settlors (subject to certain preemptive rights) shall be entitled to transfer new shares to the trust in lieu of the shares withdrawn.

The settlors may assign their beneficiary rights under the trust, subject to the giving of prior notice to the other settlors and the granting of the right to acquire such beneficiary rights.

The trust may be terminated in advance, at any time, by express written agreement of the settlors holding beneficiary rights in at least 85% of the shares held in trust. The trust can only be modified by written agreement signed between the trustee and all settlors.

All fully paid shares at the time the distribution of dividends is approved by the shareholders meeting shall be entitled to a pro-rata share of such dividend. Any partially paid shares shall be entitled to participate in such dividends in proportion to their paid amount.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account and, will be taxed at a rate that fluctuates between 4.62% and 7.69% if they are paid from the reinvested Net Tax Profit Account. Any dividends paid in excess of this account are subject to a tax equivalent to 39% approximately if paid during 2007. The tax is payable by the company and may be credited against its income tax in the same year or the following two years. Dividends paid from previously taxed profits are not subject to tax withholding or additional tax payment.

In the case of a capital reduction, any excess of the proceeds to shareholders over the balances of contributed capital accounts will be accorded the same tax treatment as dividends, in conformity with the procedures established by the Mexican Income Tax Law.

Under Mexican Corporate Law, a company's net profit for each fiscal year (net of all tax provisions, any other statutory provisions, and the amortization of losses from previous year), are subject to the shareholders approval at the general ordinary shareholders meeting and should be allocated as follows:

- Mexican Corporate Law requires appropriation of 5% of annual net income to the legal reserve, until the reserve equals 20% of a company's restated capital stock. This reserve is not available for dividends, but may be used to reduce a deficit or may be transferred to contributed capital.

- Other amounts, as determined by the stockholders may be segregated and allocated to any other general or special reserves.

- The remaining balance, if any, is available for cash dividends to the shareholders.

## NOTE 12 - OTHER INCOME, NET

Other income, net comprised the following:

| December 31, | | 2006 | | 2005 |
|---|---|---|---|---|
| Loss from sales and estimates for the disposal of fixed assets | (Ps. | 1,254 ) | (Ps. | 2,547 ) |
| Income tax receivable from prior years | | 45,558 | | 64,096 |
| Other | | 1,735 | | 38,766 |
| | Ps. | 46,039 | Ps. | 100,315 |

## NOTE 13 - INCOME TAX, ASSET TAX AND EMPLOYEES' PROFIT SHARING

As of 2005, "controlling companies", as defined by the Income Tax Law, may consolidate for income tax purposes, the results of their subsidiaries for up to 100% of the investment maintained in such subsidiaries.

During 2006 and 2005, Arca and its subsidiaries, consolidated their results for income and asset tax purposes.

The income tax and employees' profit sharing provision is analyzed as follows:

| December 31, | | 2006 | | 2005 |
|---|---|---|---|---|
| Currently payable: | | | | |
| Income tax | Ps | 770,592 | Ps | 780,002 |
| Deferred income tax | | 159,909 | | (68,830 ) |
| | | 930,501 | | 711,172 |
| Employees' profit sharing | | 190,871 | | 167,581 |
| | Ps | 1,121,372 | Ps | 878,753 |

Employees' profit sharing is determined at the rate of 10% on the taxable income adjusted as prescribed by the Income Tax Law. Arca obtained a favorable resolution with respect to the application of Article 10 of the Income Tax Law in the calculation of employees' profit sharing.

The reconciliation between the statutory and effective income tax rates is shown below:

| December 31, | | 2006 | | 2005 |
|---|---|---|---|---|
| Income before income tax and employees' profit sharing | Ps | 3,330,939 | Ps | 2,915,484 |
| Equity in loss (income) of associated company | | 6,239 | | (1,601 ) |
| Net Income before income tax and employees' profit sharing | | 3,337,178 | | 2,913,883 |
| Tax at statutory rate (29% in 2006 and 30% in 2005) | | (967,782 ) | | ( 874,165 ) |
| Add (deduct) effect on income tax of: | | | | |
| Comprehensive financial expense | | 20,150 | | 15,821 |
| Non-deductible items | | ( 6,579 ) | | (5,716 ) |
| Other non-taxable income | | 27,881 | | 45,221 |
| Effect of reduction of tax rate | | - | | 41,664 |
| Other | | (4,171 ) | | 66,003 |
| Current and deferred income tax | ( Ps | 930,501 ) | ( Ps | 711,172 ) |
| Effective tax rate | | 28% | | 24% |

In December 2004 a change was made to the income tax law, as a result of which the direct deduction of purchases to determine the tax profit was eliminated, in favor of applying the old method of deducting the cost of sales. Consequently, the balance of inventories at that date became a taxable item for income tax and employees' profit sharing purposes. The inventory balance became a temporary non-recurring item, to be reversed in a short period of time. The Company recorded deferred employees' profit sharing of Ps.33,991 as a result of the aforementioned changes.

The income tax effect of significant items comprising Arca's net deferred income tax assets and liabilities are as follows:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| Income tax: | | | | |
| Inventory | **Ps** | **93,564** | Ps | 109,964 |
| Property, plant and equipment | | **1,247,665** | | 1,075,156 |
| Labor obligations | | **(25,636)** | | (53,059) |
| Employees' profit sharing | | **(54,808)** | | (40,329) |
| Other | | **(9,274)** | | (4,336) |
| Total net deferred income tax liability | | **1,251,511** | | 1,087,396 |
| Employees' profit sharing: | | | | |
| Inventories | | **33,991** | | 33,991 |
| Total net deferred income tax and employees' profit sharing liability | **Ps** | **1,285,502** | Ps | 1,121,387 |

In accordance with the amendments to the Income Tax Law approved as of November 13, 2004, the income tax rate will be reduced to 28% in 2007.

Asset tax is calculated at the rate of 1.8% on the net value of certain assets and liabilities and is due only when asset tax exceeds the income tax payable. Asset tax paid may be recovered over the following ten years, if and when income taxes exceed asset tax during such years.

## NOTE 14 - FOREIGN CURRENCY POSITION

As of December 31, 2006 and 2005, Arca had the following foreign currency assets and liabilities:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| Monetary assets | **US$** | **117,624** | US$ | 61,067 |
| Monetary liabilities | | **(3,497)** | | (7,038) |
| Net monetary position | **US$** | **114,127** | US$ | 54,029 |

Arca's foreign currency transactions were as follows:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| Sales | **US$** | **24,714** | US$ | 19,447 |
| Purchase of raw materials | | **(1,083)** | | (1,968) |
| Purchase of fixed assets | | **(2,730)** | | (9,939) |
| Services and interest | | **(215)** | | (453) |

At March, 6, 2007, date of issuance of these audited financial statements, the exchange rate was Ps.11.17 per US dollar.

## NOTE 15 - BUSINESS SEGMENTS

The company manages and evaluates its operations through information condensed and organized by segments stated in thousands of unit boxes, which are the basis for statistical reports by products, brands, presentation and size, as follows:

a. Total sales by product

| | **2006** | 2005 | Var. % |
|---|---|---|---|
| Colas | **302,397** | 283,831 | 6.5% |
| Diet soft drinks | **30,503** | 27,934 | 9.2% |
| Flavors | **113,953** | 106,745 | 6.8% |
| Purified water | **15,575** | 13,441 | 15.9% |
| Other | **5,614** | 3,616 | 55.3% |
| Total | **468,042** | 435,567 | |

b. Total sales by brand

| | **2006** | 2005 | Var. % |
|---|---|---|---|
| Coca-Cola | **438,322** | 409,666 | 7% |
| Proprietary and third party brands | **29,720** | 25,901 | 14.7% |
| Total | **468,042** | 435,567 | |

c. Total sales by presentation and size

| | **2006** | **% of total** | 2005 | % of total |
|---|---|---|---|---|
| Returnable | **166,524** | **37%** | 175,756 | 40% |
| Non-returnable | **301,518** | **63%** | 259,811 | 60% |
| Total | **468,042** | **100%** | 435,567 | 100% |
| | | | | |
| Single serve | **241,571** | **52%** | 228,856 | 53% |
| Multiple serve | **226,471** | **48%** | 206,711 | 47% |
| Total | **468,042** | **100%** | 435,567 | 100% |

d. Arca's sales by product, expressed as a percentage of units sold, were as follows:

| December 31, | **2006** | 2005 |
|---|---|---|
| Colas | **64.6%** | 65.2% |
| Diet soft drinks | **6.5%** | 6.4% |
| Flavors | **24.3%** | 24.5% |
| Purified water | **3.3%** | 3.1% |
| Other | **1.3%** | 0.8% |
| | **100.0%** | 100.0% |

## NOTE 16 - TRANSACTIONS AND BALANCES WITH RELATED PARTIES

As required by the Mexican Stock Exchange Law and Arca's by-laws, Arca is required to appoint and maintain an Audit Committee. Some of its activities are to:

a. Evaluate and approve any transactions that involve any shareholder that owns more than 0.2% of Arca's capital stock and an amount greater than US$500,000 during any calendar year;

b. Make a recommendation to the Board of Directors whether or not to approve any related-party transactions that are out of the ordinary course of business.

The main balances payable to related parties were as follows:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| Desarrolladora Corporativa, S. A. de C. V. | **Ps** | **-** | (Ps | 1,979 ) |
| Other | | **-** | | ( 418 ) |
| | **Ps** | **-** | (Ps | 2,397 ) |

The aforementioned amount is included at December 31, 2005 in the liability to suppliers.

The main transactions with related parties were the following:

| December 31, | | **2006** | | 2005 |
|---|---|---|---|---|
| Acquisition of refrigerators | **Ps.** | **-** | Ps | 1,707 |
| Advertising services | | **-** | | 1,127 |
| Lease | | **361** | | 729 |
| Other | | **66** | | 548 |
| | **Ps.** | **427** | Ps | 4,111 |

## NOTE 17 - FINANCIAL INSTRUMENTS

Arca maintains two interest rate hedging contracts as an economic risk protection measure as follows:

i. Contract with ING Bank (México), S. A. (ING) where ING agreed to pay Arca, over an amount of Ps500,000, semi-annual interest at a variable 182-day Cetes reference rate plus 0.88%. Arca, on the other hand, agreed to pay ING, over the same amount, a fixed interest rate of 9.10%. The contract expires on October 24, 2008.

   At December 31, 2006, interest payable was accrued in the amount of Ps.772 (Ps.5,985 receivable in 2005).

ii. Contract with Bank of América México, S. A (BAMSA) where BAMSA agreed to pay Arca, over an amount of Ps500,000, semi-annual interest at a variable 182-day Cetes reference rate plus 0.88%. Arca, on the other hand, agreed to pay BAMSA interest, over the same amount, at a fixed rate of 8.81%. The contract expires on October 24, 2008.

At December 31, 2006, interest receivable was accrued in the amount of Ps2,242 (interest receivable of Ps7,514 in 2005).

In 2006, comprehensive financing income includes Ps3,014 of interest income (Ps13,499 of interest expense in 2005) corresponding to these contracts.

Following is the market value of the aforementioned hedging contracts at the date of issuance of these financial statements, which were recorded as an asset and a (liability), and credited (charged) to comprehensive financial income (expense):

| | | Market value |
|---|---|---|
| ING | Ps. | 9,638 |
| BAMSA | | ( 6,976 ) |
| | Ps. | 2,662 |

## NOTE 18 - FINANCIAL LEASE

Arca entered into a contract through which it sold to Amcor injection and blowing machinery and equipment at a price of US$42,000 through a financial lease program.

At December 31, 2006, Arca has an account receivable derived from the financial lease for US$21,000 (US$26,250 in 2005), which in accordance with the contract bears interest at an annual 7.2% rate and matures in the following years:

| | | |
|---|---|---|
| 2007 | US$ | 5,250 |
| 2008 to 2010 | | 15,750 |
| | US$ | 21,000 |

Interest recorded amounted to a total of US$3,414 and US$4,583 at December 31, 2006 and 2005, respectively. This interest is recorded as a deferred credit and amortized as earned. For purposes of the presentation of these financial statements, it is shown deducted from the accounts receivable mentioned above, amounting to Ps.229,196 and Ps.284,293 at December 31, 2006 and 2005, respectively (see Note 3). See also Subsequent events in Note 20.

## NOTE 19 – NEW FINANCIAL REPORTING STANDARDS

Beginning January 1, 2007, the provisions of the following Mexican Financial Reporting Standards (NIFs) issued by the Mexican Financial Reporting Standards Board (CINIF) became effective. These dispositions will not have a significant impact on the financial information:

NIF B-3 "Income statement" – Incorporates, among other things, a new approach to classifying income, costs and expenses as ordinary and non-ordinary, eliminates special and extraordinary items and categorizes employees' profit sharing as an ordinary expense and not as a tax on profits.

NIF B-13 "Subsequent events" – Requires, among other things, recognition of the restructuring of assets and liabilities in the period in which it actually takes place. Likewise, the recognition of creditors' waivers to enforce their right to demand debts in the event of lack of compliance by the entity with debt agreement commitments, will the recorded when the waiver is granted.

NIF C-13 "Related parties" – Extends, among other things, the definition (scope) of the related parties' concept and increases the disclosure requirements in the notes to the financial statements.

NIF D-6 "Capitalization of Comprehensive Financing Income (Expense)" – Establishes, among other things, the obligation to capitalize the comprehensive financing income (expense) corresponding to fixed asset construction and the rules for its capitalization.

## NOTE 20 – SUBSEQUENT EVENTS

At December 31, 2005

**Public offer for purchase of shares of Herdez**

At January 21, 2006, Arca and Hechos con Amor, S.A. de C.V. (owner of most of the shares of Grupo Herdez, S.A. de C.V.) signed an agreement that established the bases for Arca to acquire a significant stake in the outstanding shares of Grupo Herdez; this transaction was approved jointly by the Boards of Directors of Arca and Hechos con Amor. However, in a Board Meeting held on May 23, 2006 the directors decided not to continue with the public offer for the purchase of shares of Herdez since compliance with the necessary conditions to implement the operation required changing the originally agreed terms; hence, it was not possible to reach a satisfactory agreement under these new circumstances.

At December 31, 2006

**Bokados**

At January 22, 2007, Arca and Nacional de Alimentos y Helados, S.A. de C.V. ("NAYHSA") and the latter's stockholders signed an agreement establishing the bases for Arca to acquire in the future 100% ownership of the capital of NAYHSA. This agreement was divided into two steps as follows:

i. The first step, was taken to obtain 51% of the capital and corporate control of the aforementioned company.

ii. The second step, to reach 100% ownership of the capital, is expected to take place during 2009.

This agreement includes all assets destined by NAYHSA to the operation of the snacks business and to the commercialization of its snack products, including contractual rights, the brand Bokados and all other industrial property rights involved, but excluding certain property and rights over brands operated by NAYHSA, as well as certain brands that are not significant for the business.

**Discount on the account receivable from Amcor**

At January 29, 2007 the company entered into a sales agreement for the account receivable from Amcor for up to an amount of US$21,000 with maturity in November 2010. (See Note 18) through an operation consisting of:

i. The transfer and sale to Bank of America, N.A. of the collection rights (the "Credit Rights") owned by Desarrolladora Arca, S. A. de C. V. (Dasa) and corresponding to obligations payable by Amcor with its affiliated company Amcor PET Packaging USA, Inc. jointly liable with the former, derived from the "Equipment Agreement" signed on November 1, 2003 by these companies, Arca and its bottling subsidiaries.

ii. The granting of a guarantee by Arca to Bank of America, N. A. in order to guarantee the compliance with obligations to be assumed by Dasa, before Bank of America, N. A. as a result of the aforementioned operation, as well as the timely compliance with the payment of Credit Rights, with Arca reserving a corresponding repurchase option.

**Jugos del Valle**

At December 19, 2006, Coca-Cola FEMSA, S. A. B. de C. V. and TCCC announced an agreement with the controlling group of Jugos del Valle, S. A. B. de C.V. (Valle) to make a stock purchase offer for up to 100% of the outstanding shares of Valle, amounting to approximately US$380,000. In this connection, Arca, in proportion to its territory sales, could participate in the capital of Valle under the emergent drink model agreed between the bottlers and TCCC. The agreements reached would be subject to the approval of Arca's Board of Directors.

Ing. Francisco Garza Egloff
Director General

Dr. Adrián Wong Boren
Director de Administración y Finanzas

# GLOSSARY

**ARCA:** Embotelladoras Arca, S.A.B. de C.V.

**Blowmoulding Equipment:** Equipment for conversion of preforms into PET bottles.

**Consumer:** Individual who purchases the Company's products from a point of sale.

**CSD:** Carbonated Soft Drink.

**Hand Held:** Electronic device used by sales force for order taking.

**IPADE:** Instituto Panamericano de Alta Direccion de Empresas.

**ITESM:** Instituto Tecnologico y de Estudios Superiores de Monterrey.

**MUC:** Million Unit Cases.

**NR:** Non Returnable.

**PET Bottle:** Non-returnable plastic container.

**PET Preform:** Intermediate product manufactured from PET resin from which PET bottles are produced through a blowmoulding process.

**PET Resin:** (Polyethyleneterephtalate) Material used in the production of plastic containers.

**Point of Sale:** Store or establishment that sells the Company's products to consumers.

**Post-Mix Machine:** Soft drink dispenser that mixes carbonated water with concentrated syrup. Mainly found in restaurants, cafeterias and schools.

**Preform Injection Equipment:** Equipment for conversion of PET resin to preforms.

**Pre-sale System:** System of visiting points of sale prior to delivery of products, during which specific orders are taken for each point of sale. This optimizes product delivery and the product load carried by each distribution truck.

**REF-PET Bottle:** Returnable plastic container.

**SKU:** Stock Keeping Unit.

**Unit Case:** Unit of measurement used in the beverage industry; equivalent to 24 eight-ounce servings.

**Vending Machine:** Non-returnable soft-drink dispenser that operates with coins.

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COTIZA EN BOLSA MEXICANA DE VALORES
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This annual report contains forward-looking statements regarding ARCA and its subsidiaries based on management's expectations. This information as well as statements regarding future events and expectations are subject to risks and uncertainties, as well as factors that could cause the results, performance and achievements of the company to completely differ at any time. Such factors include changes in the general economic, political, governmental and commercial conditions at the national and global levels, as well as variations in interest rates, inflation rates, exchange rate volatility, tax rates, the demand for and price of carbonated beverages, water and ice, taxes 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 different from the estimates described in this document. Therefore, ARCA does not accept any responsibility for variations on the information provided by official sources.


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EMBOTELLADORAS ARCA

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