EMBOTELLADORAS ARCA

A portrait of our commitment

ARCA 2005 ANNUAL REPORT

A PORTRAIT OF OUR COMMITMENT

Our clients and consumers are Arca's reason for being. For them, we commit each and every day to meeting their individual preferences by satisfying their demands for valued beverages of high quality and tradition at competitive prices.


ANA
RAUL
ISABEL
NATALIA
MARTHA
MELISSA
ANY
SERGIO
ALEJANDRO, CAROLINA
CARLA
LAURA
FERNANDO
DANIEL
LUZ
LILIANA
ANTONIO

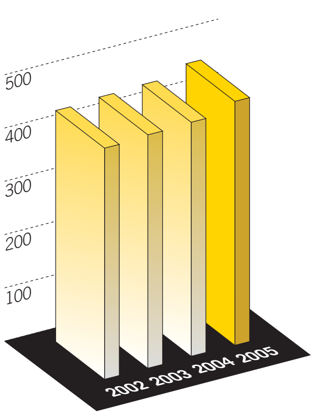
FINANCIAL HIGHLIGHTS

(in millions of Mexican Pesos in purchasing power as of December 31, 2005 except per share data)

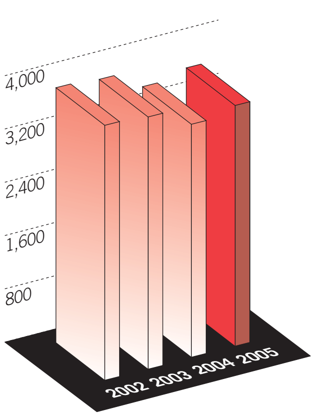
	2005	2004	% Change
Sales volume (millions of unit cases)[1]	**435.6**	416.9	4.5%
Net sales	**14,647**	14,329	2.2%
Operating profit[2]	**2,767**	2,529	9.4%
EBITDA[3]	**3,436**	3,317	3.6%
Net income	**1,957**	1,910	2.5%
Total assets	**14,306**	13,953	2.5%
Cash on hand	**1,950**	1,844	5.7%
Total debt	**1,542**	1,608	-4.1%
Stockholders' equity	**10,355**	9,862	5.0%
Operating cash flow[4]	**2,349**	2,441	-3.7%
Dividends paid	**1,348**	1,271	6.1%
Capital expenditures	**780**	848	-8.0%
Data per share[5]			
Net income	**2.43**	2.37	
Book value	**12.85**	12.24	
Dividends paid	**1.67**	1.58	

1 Includes soft drinks and purified water in personal formats.
2 Excludes non-recurring expenses for a total of Ps. 151 in 2004, and Ps. 43 million in 2005.
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.

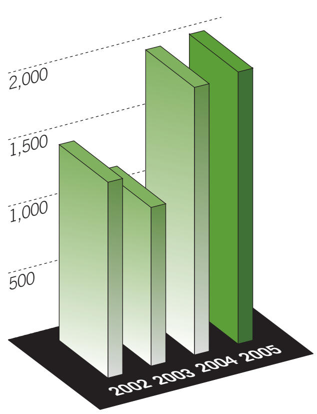
Sales Volume
(million unit cases)



EBITDA*
(in millions of Mexican Pesos)



Net Income
(in millions of Mexican Pesos)



* Excludes non-recurring expenses

The creativity and teamwork of our employees as well as consumer preferences for our products and brands, allowed us to successfully face the challenges of the complex environment and achieve outstanding results during the year.

Dear Shareholders:

We are very pleased to report that 2005 reflected the positive impact of the strategies implemented in previous years. Those actions translated into tangible results, enabling Arca to transform itself into a more agile, dynamic, flexible organization with a solid leading position in the markets it serves.

Initiatives to meet the growing needs of our consumers such as the innovation of value added products and improved execution in the market, combined with the optimization of our operations and addition of new technologies, supported our achievements and now serve as the pillars of our company's competitive growth.

Adopting a framework of actions aimed at creating value, supported by the dedicated work of our employees and with the introduction of new projects that increase the efficiency of our customer and consumer service, we were able to anticipate and respond rapidly to an ever-changing environment. At the same time, in 2005 we expanded our operating margin from 17.7% in 2004 to 18.9%, which stands among the highest in the industry.

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

Tangible results in a challenging environment

The Mexican soft drink industry in 2005 was marked by strong competition, a decline in prices in real terms and higher raw material costs, such as PET resin. These factors posed significant challenges to Arca's growth and profitability.

The creativity and teamwork of our personnel working to serve the market more efficiently, and customer preference for our products and brands were enough to successfully counteract the difficulties of this complex environment and obtain outstanding results for the year.

The company's sales volume grew by 4.5%, reaching a record 436 million unit cases in 2005, while net sales totaled Ps. 14,647 million for a 2.2% growth year-over-year. Operating income, excluding non-recurring expenses, was Ps. 2,767 million, representing an increase of 9.4%, while EBITDA increased 3.6% when compared to 2004, growing to Ps. 3,436 million for an EBITDA margin of 23.5%. Earnings per share reached Ps. 2.43 in 2005, above the level in 2004 even without the benefit of the extraordinary gain generated by the sale of the Joya brand to The Coca-Cola Company.

This financial performance enabled us to distribute dividends of Ps. 1,348 million or Ps. 1.67 per share in 2005, representing roughly a 7% yield, among the highest for companies traded on the Mexican Stock Exchange.

With the goal of making Arca a more attractive investment alternative, during 2005 our majority shareholders placed approximately US$50 million worth of shares in the market, which raised the total float to over 13% and increased the daily trading volume.

Focus on the market with service and world-class execution

In order to preserve the value of our product portfolio and serve each market niche more efficiently, we have taken definitive actions to fortify the strength and competitiveness of our brands. We continued implementing the Revenue Growth Management and Sales Force Automation projects in all of our territories, thereby allowing for a more precise execution, differentiated by distribution channel, location and size of the client, as well as by specific profile of the consumers that visit each point of sale, including their socioeconomic level and consumption occasion.

The success of these initiatives has been due to the incorporation of new state-of-the-art technologies, continuous training of personnel and the integration of variable compensation programs linked to results. These strategies, along with loyalty programs and innovative promotions, have been key to establishing solid relationships with our clients and to differentiating us from our competitors.

Among the main approaches for achieving growth and profitability is the effort to increase single-serve product sales through a greater focus on their promotion and advertising as well as on their greater availability through coolers and vending machines. We have also introduced new flavors, presentations, packaging and sizes in order to meet various competitive pricing points as well as to increase the convenience of our products.

"Adopting a framework of actions aimed at creating value and increase efficiency, enabled Arca to evolve into a more agile, dynamic, flexible organization with a solid leading position in the markets it serves."

— Manuel L. Barragan Morales

In the purified water segment, we posted significant growth in single-serve formats thanks to, among other efforts, a differentiated strategy at the point of sale. In addition, we restructured the jug water business to seek growth in new markets with the greatest potential for volume and profitability, and introduced new presentations such as the 5-liter jug.

Together with The Coca-Cola Company, we have continued developing new products and packages to meet the needs of a market that demands new and better choices. The wide acceptance of recent product launches, such as Ciel Aquarius flavored water, Minute Maid juices and Ciel Dasani functional water, demonstrates the success of this strategy.

During 2005, the distribution of all non-carbonated soft drinks, except purified water, to the self-serve channel and convenience stores was centralized in SalesKo. This company was formed by all of the bottlers and The Coca-Cola Company to achieve economies of scale and an improved service to customers in this specific channel.

In order to consolidate the benefit of closer proximity to a greater number of consumers, we installed almost 4,000 additional vending machines in 2005, an increase of around 30% when compared to 2004, making us the largest operator of these machines in Mexico.

Operating efficiencies to achieve sustained growth

The goal of seeking growth and maintaining our leadership in the beverage business is consistent with our discipline in cost control and continuous improvement in the efficiency of our operation.

According to our original plan, toward the end of 2005 we reached our goal of Ps. 300 million annualized savings in cost, which, when added to the Ps. 500 million achieved previously, brings our savings total to Ps. 800 million in the last three years. This effort has translated into a gradual reduction in the cost of goods sold per unit case, despite higher raw material costs.

Among the operational improvements achieved in 2005 were two important outsourcing projects. First, certain information systems technology functions were assigned to EDS, a company with a worldwide reputation for quality, thus enabling us to focus more on our key operations. The move yielded tangible benefits such as lower costs, greater reliability and greater security for our systems.

> "We will continuously seek to improve our leadership and market's preference through innovation, excellent customer service and improvements in the quality and productivity of our operations."
>
> — Francisco Garza Egloff

The second outsourcing project was related to our primary transportation. We reached an agreement with third parties to provide service between our plants and distribution centers. In only its first few months of operation, we have already achieved significant efficiency improvements in this area.

Lastly, we obtained excellent improvements in our supply chain management through our "Evolution" Project, which reduced our inventory of raw materials and finished products; we also improved our service indicators in customer delivery through a better coordination among the various links in the supply chain, due to the use of modern information systems.

A shared commitment to quality and community development

The success of our organization stems primarily from our people. Therefore, we have focused on implementing Arca's Integral Quality and Improvement System ("CIMA") at all our facilities while strengthening it with new training, development and communications tools.

Part of this strengthening process has been the formation of Participative Management Teams ("EQAP's") which have become part of Arca's corporate culture and a key factor in the progress made in the majority of our plants under the Coca-Cola Quality Assurance System.

In order to conform to standards and practices that meet the principles of environmental responsibility and sustainable development, Arca continued its voluntary certification program called "Industria Limpia" (Clean Industry), its investment in residual water treatment plants and its participation in ECOCE (the Association for Corporate Commitment to Ecology) one of the largest collection programs for non-returnable PET bottles in Mexico.

We are proud to report on the involvement of our personnel in community assistance programs through Arca's Volunteer Initiative ("VOLAR") as well as our implementation of a program called "Congruent Movement" which provides employment opportunities to people with special needs.

This commitment to enhancing the welfare of the community was recognized for the third straight year with the Social Responsibility Award from the Mexican Center for Philanthropy ("CEMEFI"). Our first Annual Social Responsibility Report details the specific actions taken in the different areas of corporate citizenship.

Outlook for 2006

The progress made by our organization brings pride and satisfaction to all our personnel. At the same time, it commits us to continue the projects that will ensure sustainable growth and long-term profitability.

As in previous years, 2006 will demand our best as we tackle the current and immediate challenges. We will continuously seek to improve our leadership and market's preference for our products through innovation, excellent service to our customers and improvements in the quality and productivity of our operations, as well as in the development of our personnel, within a framework of transparency and social responsibility.

To achieve this, we will continue to solidify a foundation that will enable us to stand out in the markets in which we compete and to meet and, whenever possible, exceed the expectations of our customers and consumers, thus obtaining a sustained creation of value for our shareholders.

We sincerely thank our personnel, whose consistency and professionalism make it possible each day for Arca to be a more competitive and better-positioned organization.

We also thank the Board of Directors for their valuable guidance, which has been vital to the progress of this company.

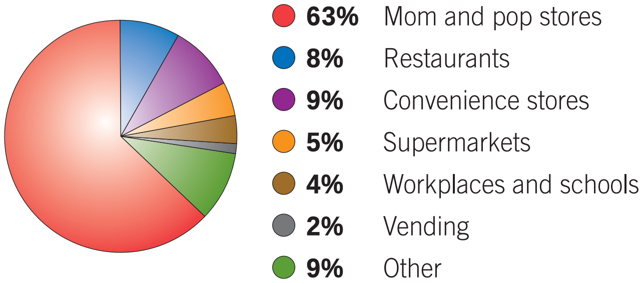
To our consumers and customers, we have the utmost appreciation for your preference for our products and brands; to the suppliers, creditors and shareholders who have given their support and trust as we work to reach the goals we have proposed, we offer our most profound gratitude.

Manuel L. Barragan Morales
Chairman of the Board

Francisco Garza Egloff
Chief Executive Officer

Company Profile Arca is dedicated to the production, distribution and sale of beverages mainly under The Coca-Cola Company brand, as well as proprietary and third party brands. Arca was formed in 2001 through the merger of three of the oldest bottlers in Mexico and is now the second largest Coca-Cola bottler in Latin America. The Company distributes its products in the northern region of Mexico, primarily in the states of Tamaulipas, Nuevo Leon, Coahuila, Chihuahua, Sonora, Sinaloa, Baja California and Baja California Sur.

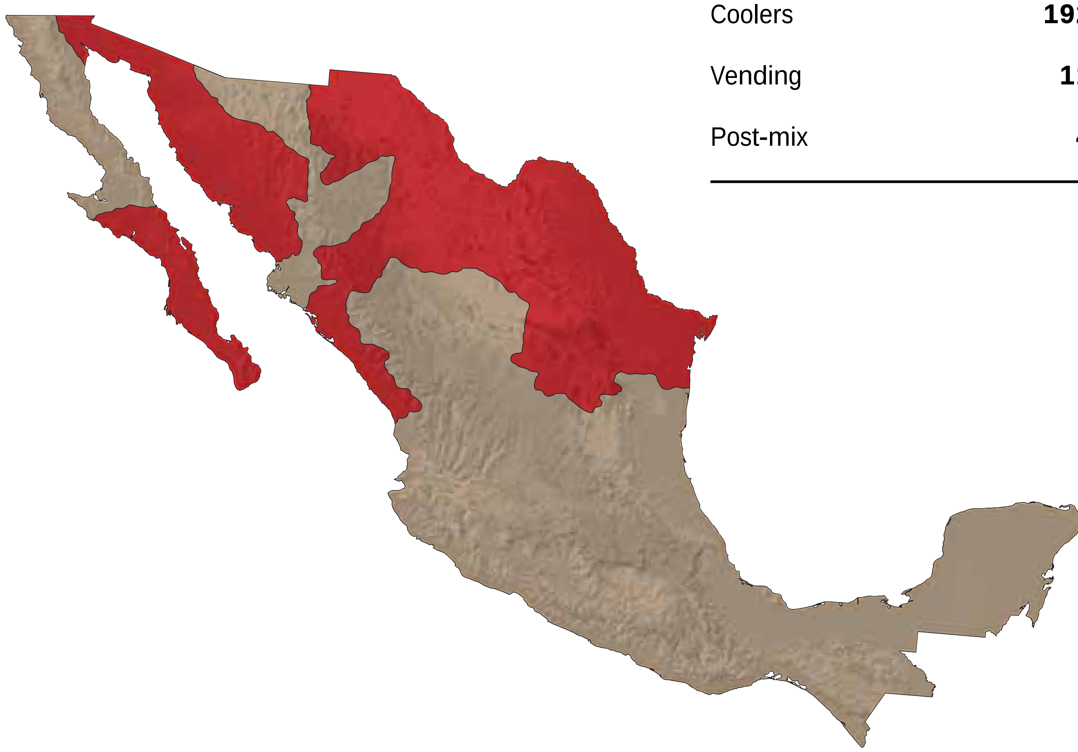
2005 Sales by Distribution Channel



Relevant Market Highlights	2005	2004
Bottling Plants	**14**	14
Distribution Centers	**61**	65
Routes	**1,665**	1,732

Market Information	2005	2004
Population (millions)	**15.7**	15.4
Points of sale	**214,000**	204,000
Coolers	**192,402**	183,505
Vending	**11,453**	8,893
Post-mix	**4,904**	4,714

Arca's Territories



We are close to our clients in order to better serve them. Our team is in constant communication with our clients to understand their particular needs and offer them a full range of superior products and services, which improves our relationship and fosters mutual growth.

We seek to strengthen our product portfolio by enhancing our offerings with new presentations, flavors and packaging at competitive prices.

Anticipating new trends and recognizing the current dynamics of the beverage market, we increased our product offerings during 2005 by introducing new options and value propositions that allowed us to further build consumer loyalty and preference for our brands.

In the colas segment, one of the most important strategies was the creation of a greater variety of packaging and presentations to meet various needs of diverse consumer groups at competitive prices.

For example, we introduced the 1-liter non-returnable bottle in various cities within our territory, as well as the 435-ml. returnable glass presentation with plastic caps in some border cities, while expanding the 500-ml. non-returnable bottle in all the regions in which we operate.

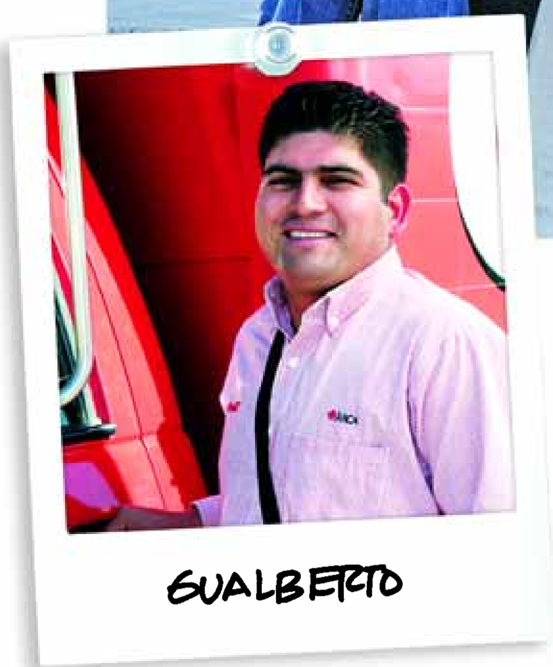
In addition, we extended the presence of the 2.5-liter REF PET in Monterrey and Chihuahua in order to offer a competitive product to those price-sensitive consumers.

We also successfully launched a new concept in low-calorie beverages in all of our territories under the name of Spacio Leve, which integrates Coca-Cola Light, Coca-Cola Citra Light, Sprite 0, Lift Ligera, Fanta Free, Fresca 1, Ciel Aquarius and Nestea Light, all in the 310-ml. slim can.

In the flavor segment, we experienced outstanding growth of 7%, due to the greater variety of offerings and expanded distribution of Joya products throughout our territory, as well as our complementing of regional brands with national brands such as Fanta, Manzana Lift and Fresca.

New marketing strategies at the point of sale and the introduction of client incentives, combined with a new image for Ciel brand, led the purified water single-serve format to grow 25% in 2005.

We also continued driving the new categories segment, which increased more than 46% due to solid performances of Powerade and Nestea, the successful launch of flavored water Ciel Aquarius in three flavors, and introduction of functional water Ciel Dasani and Minute Maid juices.



We offer refreshing products at every turn. By increasing the presence of our vending machines on all of our territories and ensuring the constant availability of our products, we are there when the consumer needs us with better, more accessible choices.

The development of new distribution channels such as vending machines, the strengthening of our traditional and modern channels are our top priority.

One of the ways for Arca beverages to become more accessible to the consumer is via the installation of vending machines throughout its territory, a distribution channel that has proven to be highly profitable with ample growth potential. This is an effective way for Arca to differentiate from its competitors.

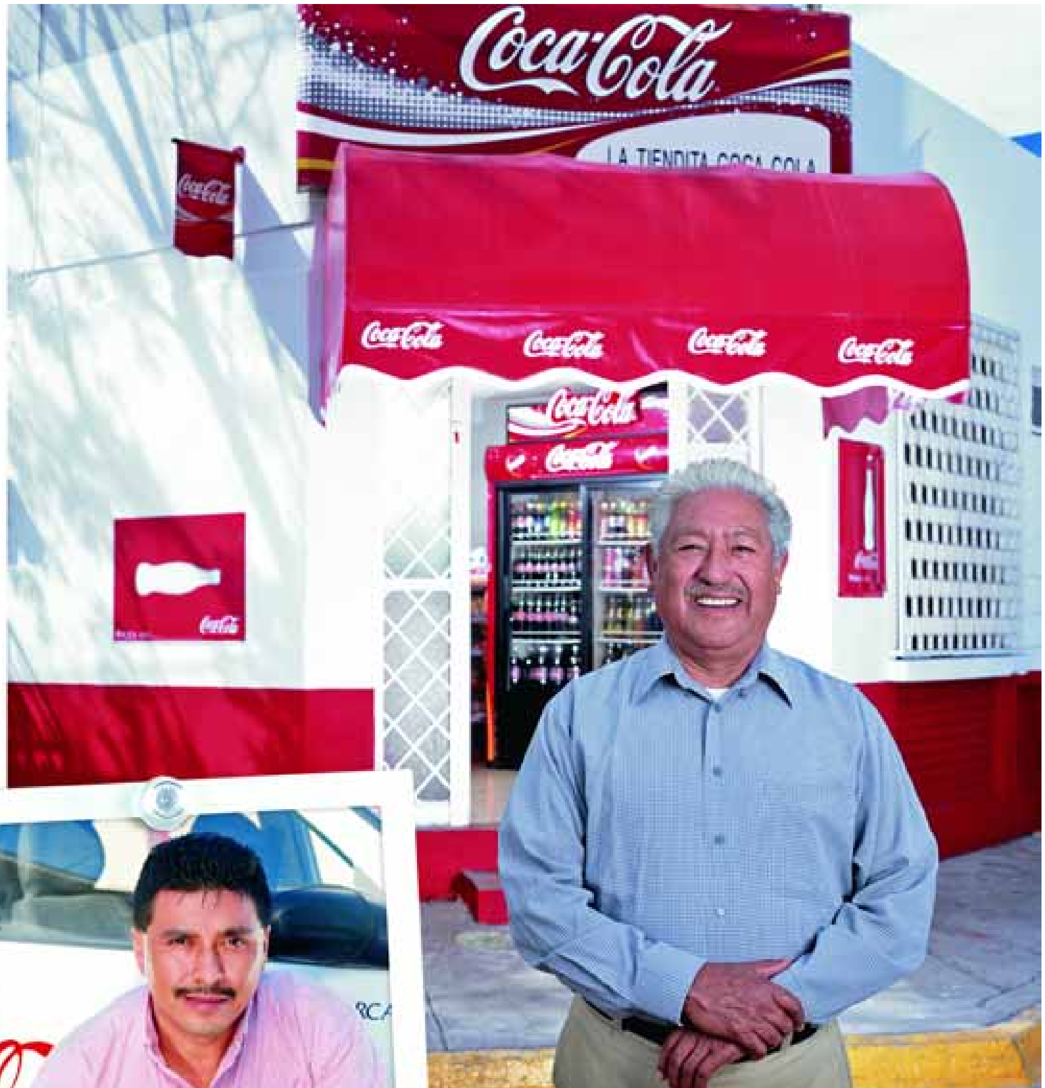
As part of this program, by year-end we introduced nearly 4,000 additional vending machines to reach a total of 11,500 units, net of replacements, which makes us the largest vending machine operator in Mexico.

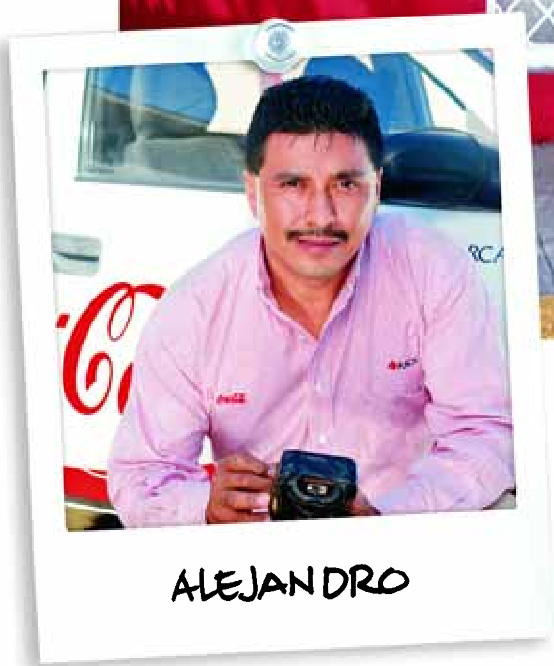
In addition to its growth potential, further developing this distribution channel offers us advantages by expanding the market presence of our brands and packages, improving our price architecture, and directly positioning Arca beverages with the consumer through individual presentations of added value.

In the traditional channel, Arca solidified its client relations by continuing its loyalty programs, such as "Amigo Seguro" and "Socio Distinguido," as well as generating a value-added dialogue through our improved service, a result of providing new, state-of-the-art information and technology systems for our sales force. We reinforced our leadership in this market by continuing to install new refrigerators, totaling over 192,000 units in 2005, a coverage of nearly 90% at the points of sale that we now serve daily.

Furthermore, we have managed to boost our position at supermarkets by the presence of merchandisers who oversee product display and availability, as well as by launching new beverage presentations and multi-packs created especially for this growing market area.

In order to better serve the modern channel and to achieve economies of scale, in 2005 all of the bottlers operating in conjunction with The Coca-Cola Company formed SalesKo to combine our efforts and centralize commercialization of non-carbonated beverages, with the exception of purified water, while acknowledging, through commercial agreements, franchise rights of each bottler in its territory.





We seek productive, long-term relationships. Through state-of-the-art technology, we take great care in acquiring the most current information for each point of sale. This enables us to give custom service to each and every client, while helping them to improve sales.

VALUE-ADDED DIALOGUE

We strive to perfect our service and better manage our greater product offering via state-of-the-art information technology.

Updated and timely information regarding our wide range of products, prices, promotions and incentives, facilitates our sales force to offer fast and effective service, and enables Arca to build closer relationships with its clients through a constructive, value-added dialogue.

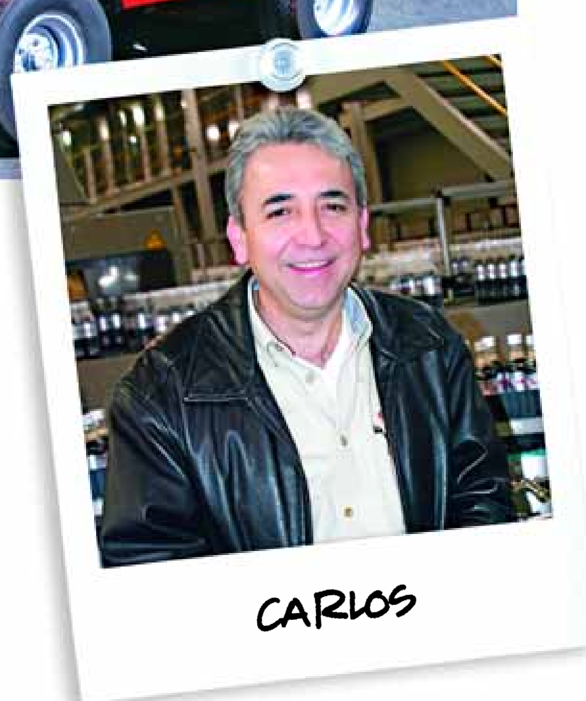
We have implemented a program called “Picture of Success,” consisting of the definition of product portfolios with specific brand-packaging-price attributes combined with targeted methods of execution and communications for each consumer segment. This program has helped us to increase the coverage indicators for key products at each point of sale. We have also complemented this initiative with the installation of coolers tailored to the size of the point of sale, which optimizes the use of space for displaying our products while increasing our share of visual inventory.

We continue to experience success in our implementation of the “Revenue Growth Management” and “Sales Force Automation” programs across all of our territories. These programs allow us to perfect our segmented execution and to manage each product, presentation and price in accordance with the particular distribution channel, location and size at the point of sale, thus satisfying specific needs of the consumer, while capturing the greatest potential from each market niche.

To this end, during 2005 we introduced new uniform commercial information systems and “hand-held” equipment with state-of-the-art technology, supported by extensive training and new compensation incentive structures for the sales force. These improvements ensure a more effective and efficient execution of traditional sales and delivery.

Furthermore, these programs allow us to obtain useful information at each point of sale in order to identify trends and quickly adapt to changes in consumer preferences. Simultaneously we are able to manage a greater number of products, implement a more focused marketing effort and improve price structure in each specific market segment.

We get to every location. The spirit of service shared by Arca's team and the constant innovation in our market execution, such as the addition of electric distribution vehicles, allow us to be more efficient and to offer quality products at competitive prices.



We are focused on constantly developing more agile and efficient operations to better serve our clients and consumers.

During 2005 we completed specific projects aimed at improving the productivity of our operations, lowering costs and simultaneously positioning Arca as a modern company capable of quickly responding to the changing needs of our clients and consumers in a dynamic beverage industry environment.

Most notably, we have reduced the number of distribution centers and routes, and we have outsourced services in the areas of information technology and primary transportation.

In the IT area, we signed a long-term contract with EDS, which allowed us to focus on our core business and helped increase productivity. It also improved our competitiveness in technological innovation and gave us access to world-class resources, capabilities and security.

In primary transportation, we signed a service agreement for our entire territory, which increased logistic operations between plants and distribution centers. This increased the average cargo shipments per trip and a decrease in the number of trucks required.

Our institutional program called “Evolution” Project focuses on supply chain of optimization. It has resulted in lower raw material and finished product inventories, as well as an increase in levels of service, quality and product availability. This was achieved through better integration and coordination across all of the supply, production and distribution processes, based on current demand, using the APO platform.

As part of our constant development of management systems, we recently added the Human Resources module to the SAP platform, which standardizes payroll functions in order to optimize its management. In the commercial area, through “SAP Business Warehouse” operations, we were able to expand our capacity to evaluate profitability by product and channel in a manner that is quick and efficient.

We bring our products to new markets. Thanks to the increased presence of our Topo Chico products in the United States and this brand's tradition of excellence, we have successfully connected U.S. Hispanic consumers with their favorite beverages.

After more than 110 years, the prestigious Topo Chico brand maintains its leadership in our territories as well as asserting a growing presence in the U.S. Hispanic market.

The favorable performance posted by Topo Chico brand mineral water in its various presentations in 2005 was the result of wider territorial coverage, its recognized quality, a renewed image and various successful advertising campaigns, as well as significant growth in exports to the United States.

We have continued to successfully expand Topo Chico brand products throughout all of our territories, supported by a new focus on its image, which is mainly geared toward the younger generation. In 2005 this translated into a 16% increase in sales.

We introduced a new formula for Topo Chico Grapefruit in new non-returnable 600-ml. and 1.5-liter presentations, as well as Topo Chico Sangria Light in 355-ml. cans, in Monterrey and other border cities.

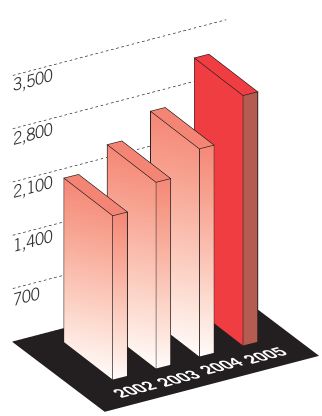
In order to develop new opportunities to satisfy consumer demand, we reinforced our organizational structure and specialized sales force in various regions of the U.S. and significantly expanded the presence of this brand in this important market, resulting in a 22% rise in exports.

The acceptance and successful positioning of these products have motivated us to continue our aggressive strategy of increasing volume in the territories in which we operate, as well as strongly entering new channels and sales segments that will allow us to grow our exports.

In the purified water jug segment, we completed a restructuring of this business through the reassignment of responsibilities and investments in additional resources aimed at new distribution alternatives, marketing approaches and sales. At the same time, we entered new territories with high growth potential, such as Monterrey.

Topo Chico Exports

(thousands of unit cases)



We team up with the community for a better tomorrow. Through concrete actions, our volunteer committees work hand in hand with the community to develop a culture of environmental awareness that produces results today but promises even greater benefits for the future.

We are committed to actively participating in community development projects.

The creation of the Arca Volunteer program (“VOLAR”), our involvement in “Movimiento Congruencia” which supports people with handicaps, as well as the publication of Arca’s first Social Responsibility Report, reaffirms our commitment to institutional programs aimed at supporting the common good and improving the quality of life in the communities we serve.

The integration of Arca’s Social Responsibility system throughout all of our business units during 2005, has allowed us to formalize the evaluation of each of our social responsibility programs.

Included in the system are all of our social assistance programs, the volunteer support provided by our personnel and our allocation of Ps. 20 million for schools, community projects, natural disaster assistance and various charities. Included as well is our participation in The Coca-Cola Foundation for the implementation of programs focused on providing underprivileged communities, particularly those with large indigenous populations, with schools and shelters.

Demonstrating our commitment to performing under standards and practices that protect and conserve environment, in 2005 we completed the construction of two new water treatment plants.

Additionally, in an effort to incorporate principles of environmental leadership and sustainable development into our decisions and operating processes, we strengthened our participation in the voluntary auditing program of the Federal Environmental Protection Agency, “Clean Industry” with the certification of two additional plants, which represent over 80% of the operations that depend on this important standard of environmental management.

As has been the case since its inception, the company contributes to the Association of Ecology and Corporate Commitment (ECOCE), of which Arca is a founding member; it represents the largest non-returnable plastic bottle collection program in Mexico.

Arca’s commitment to aligning its business strategy with its ethical values in areas of personnel, community development and environmental awareness was recognized for the third consecutive year with the Socially Responsible Company Award by the Mexican Center for Philanthropy (CEMEFI).

(Standing, left to right) Salvador Oropeza Cuevas, Leonel Cruz Martinez, Adrian Wong Boren, Pablo Macouzet Brito and Jose Luis Gonzalez Garcia. (Seated, left to right) Arturo Gutierrez Hernandez and Francisco Garza Egloff.

SENIOR MANAGEMENT

Francisco Garza Egloff (51) 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 (53) 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, and held this position until the merger of Argos, Procor and Arma into Arca. Mr. Cruz has a Bachelor's Degree in Business Administration and a Master's in Agricultural Economics from the Colegio de Postgraduados.

Jose Luis Gonzalez Garcia (54) Chief Marketing Officer of the Company since 1991 and has held various other positions since 1987, including marketing manager of Bebidas Mundiales. 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 (40) Director of 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 (52) 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.

Salvador Oropeza Cuevas (59) Director of Human Resources since March of 2003. He served as Co-Chief Operating Officer since 2001. He was CEO of Argos as well as a Member of the Board of Directors of Banco Mexicano Somex and Secretary of the Board of Directors of Sistemas Axis, S.A. de C.V. Mr. Oropeza holds an Accounting degree and an MBA from UACH.

Adrian Wong Boren (55) Chief Financial and Administrative Officer since 1994. Prior to that, Mr. Wong was a full-time professor at San Diego State University, ITESM, 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.

BOARD OF DIRECTORS

Manuel L. Barragan Morales (55)[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, Banco Regional de Monterrey and Papas y Fritos Monterrey. He was also an executive member at a major financial institution for 15 years.

Javier L. Barragan Villarreal (81) Honorary Chairman and Member of the Movimiento de Promocion Rural.

Guillermo Alvelais Fernandez (60)[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 Antonio Arizpe y de la Maza (88)[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 (52)[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.

Jose Joaquin Arizpe y de la Maza (85)[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.

Carlos Arizpe Jiménez (48)[1,C] Member of the Board of Directors of Arca since 2005.

Alfonso J. Barragan Treviño (48)[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 (70)[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, Trustees of 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 (75)[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.

BOARD OF DIRECTORS

Alejandro M. Elizondo Barragan (52)[1,P] Member of the Board of Directors since 2004. Mr. Elizondo Barragan is also the Director of Planning and Finance at 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 Banco Regional de Monterrey, Nemak, Indelpro, Polioles and Alestra.

Tomás A. Fernández García (34)[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 (60)[2,A] Member of the Board of Directors of Arca and Banco Nacional de Mexico since 2002. Former Chairman of the Board of Grupo Proagro. Member of the Board of Grupo Financiero Banamex Accival, Acciones y Valores de Mexico, 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 Chief Executive Officer of Acciones y Valores de Mexico, Corporate Treasurer of Grupo Industrial Saltillo and Advisor to the Presidency and Member of the Executive Committee of Banco Nacional de Mexico.

Enrique García Gamboa (50)[2] Member of the Board of Directors of Arca since 2005. Chief Executive Officer 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), PYOSA, UDEM and Regional Member of the Board of BANAMEX.

Rafael Garza-Castillon Vallina (49)[1,P] Member of the Board of Directors of Arca since 2001. Member of the Board and Chief Executive Officer 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 Inmobiliaria Aldama. Former Administrative Director 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 (49)[1,P] Member of the Board of Directors of Arca since 2001. Chief Executive Officer of Industria Carrocera San Roberto and Investor of Gimnasios Bally. Member of the Board of Directors of Index and Banca Afirme. Former Member of the Board of Procor and Papas y Fritos Monterrey.

Ernesto Lopez de Nigris (45)[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.

Fernando Olvera Escalona (73)[2,A] Member of the Board of Directors of Arca since 2001 and Chairman of the Audit Committee since 2002. 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 (54)[2,A] Member of the Board of Directors of Arca since 2005. Member of the Board and CEO of Banco Regional de Monterrey and Banregio Grupo Financiero, S.A. de C.V. Vice President of the Mexican Banking Association from 1997–2000.

BOARD OF DIRECTORS

Jorge Humberto Santos Reyna (31)[1,P] Member of the Board of Directors of Arca since 2001. Chief Executive Officer 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 (58)[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 from 1998 to 2001. Former President of El Paso Museum of Arts.

Arturo Gutierrez Hernandez (40) Secretary of the Board of Arca since 2001 and Director of Corporate Planning. Former Secretary of the Board of Directors at several Alfa companies.

Carlos Arreola Enriquez (54) Statutory Auditor of Arca since 2001. Member of the Board of Banco Mercantil del Norte, Hylsamex, Alfa and Grupo Maseca. Partner at PricewaterhouseCoopers in Mexico. Partner responsible for PWC's offices in Monterrey. He is currently in charge of internal audit in several publicly-held companies in Mexico and abroad, as well as Statutory Auditor to several of them.

Board Members:
[1] Shareholder
[2] Independent

Committees:
[A] Audit
[C] Compensation
[P] Planning

FINANCIAL REVIEW CONTENTS

Management's Discussion and Analysis of Financial Results

SALES

In 2005, net sales posted an increase of 2.2% in real terms, from Ps. 14,329.1 million in 2004 to Ps. 14,647.0 million in 2005. This increase was due to a 4.5% growth in sales volume, offset slightly by a 2.3% drop in the average real price per unit case. Total volume reached 435.6 MUC.

COST OF SALES

Cost of sales in 2005 increased 3.8% when compared to 2004, to Ps. 7,539.9 million. The cost of sales per unit case declined 0.6% from Ps. 17.4 to Ps. 17.3 despite the increases in PET resin prices, the greater weight of the non-returnable formats in the sales mix and the payment of royalties for the Joya brand starting in October 2004. The gross margin in 2005, was 48.5%, a reduction of 80 basis points with respect to 2004.

OPERATING EXPENSES

During 2005 selling expenses (excluding non-recurring expenses) declined 2.0% when compared to 2004, from Ps. 3,435.1 million to Ps. 3,365.2 million in 2005. Administrative expenses (excluding non-recurring expenses) decreased 11.7%, from Ps. 1,098.5 million in 2004 to Ps. 969.9 million in 2005 mainly due to the fact that goodwill will no longer be amortized.

OPERATING INCOME AND EBITDA

As a result of the above, operating income, excluding non-recurring expenses, rose 9.4%, from Ps. 2,529.3 million in 2004 to Ps. 2,767.2 million in 2005. The operating margin grew by 120 basis points, reaching 18.9%.

EBITDA (excluding non-recurring expenses), increased 3.6% to Ps. 3,435.5 million, a margin of 23.5% with respect to sales, compared to 23.1% in 2004.

NON-RECURRING EXPENSES

Non-recurring expenses declined 71.3% from Ps. 151.3 million in 2004 to Ps. 43.5 million in 2005, mainly a result of lower severance payments.

INTEGRAL COST OF FINANCING

In 2005, the integral cost of financing reached Ps. 19.6 million, compared to Ps. 46.0 million registered in 2004. This difference is mainly due to an increase in interest income from Ps. 132.4 million to Ps. 199.9 million in 2005, generated as a result of a greater average cash balance.

OTHER INCOME (EXPENSES)

Arca reported other income of Ps. 96.4 million in 2005, compared to Ps. 399.4 million in 2004. It is important to mention that in 2004 Arca received extraordinary income from the sale of the Joya brand to the Coca-Cola Company.

PROVISION FOR INCOME TAXES AND EMPLOYEES' PROFIT SHARING

For 2005, Arca's provision for income tax and employee profit sharing increased 2.2%, from Ps. 826.6 million in 2004 to Ps. 844.6 million in 2005, of which Ps. 683.5 million correspond to income tax and Ps. 161.1 million correspond to employee profit sharing. It is important to mention that during 2004, Arca registered a benefit in the provisions for income tax and employee profit sharing due to a credit generated from a change in the rate used to calculate deferred taxes, as well as the accelerated depreciation method permitted on certain investments in fixed assets. The effective tax rate was 30.1% and 30.2% for 2005 and 2004, respectively.

NET INCOME

Net income for 2005 was Ps. 1,957.4 million or Ps. 2.43 per share. This figure was higher than in 2004 despite the extraordinary income registered that year for the sale of Joya, mentioned above.

CASH AND OPERATING CASH FLOW

As of December 31, 2005, Arca had cash and equivalents of Ps. 1,949.9 million and debt of Ps. 1,542.4 million, resulting in a net cash position of Ps. 407.5 million. Resources generated by operating activities decreased 3.7% in 2005 despite the fact that in 2004 Arca had a significant reduction in working capital due to non-recurring events and conditions. Nevertheless, during 2005 inventory levels declined while accounts receivable rose due to higher sales to convenience stores and supermarkets.

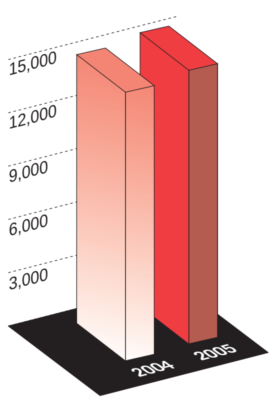
Cash was mainly allocated towards: the payment of dividends totaling Ps. 1,348.0 million, a Ps. 65.5 million reduction of bank debt and investments of Ps. 780.1 million.

INVESTMENTS

Net investment in plant, property and equipment reached Ps. 780.1 million during 2005 compared to Ps. 848.1 million in 2004, mainly allocated towards regular maintenance and replacement of plant and equipment, as well as the installation of additional vending machines, land acquisitions and the construction of facilities for bottle injection and blowing equipment.

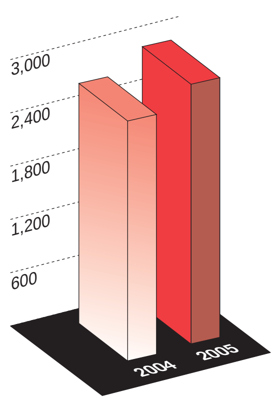
Sales

(millions of Mexican Pesos)



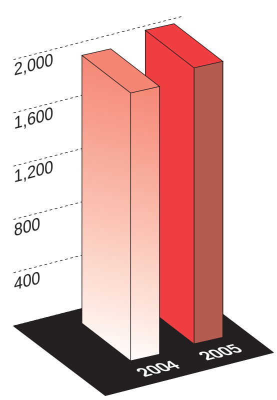
Operating Income

(millions of Mexican Pesos)



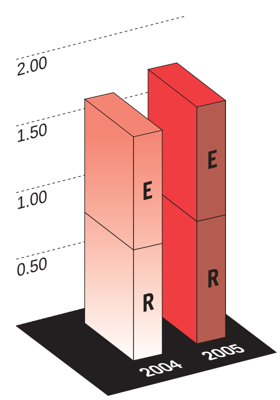
Net Income

(millions of Mexican Pesos)



Yearly Dividend Payments

(pesos per share)



R = Regular E = Extraordinary

Embotelladoras Arca, S.A. de C.V. and Subsidiaries

Consolidated Balance Sheet

(In millions of Mexican Pesos in purchasing power as of December 31, 2005)

December 31,	**2005**	2004	2003	2002
Assets				
Current assets:				
Cash and cash equivalents	**1,950**	1,844	1,189	1,562
Accounts receivable	**523**	459	469	421
Other accounts receivable	**277**	228	274	368
Inventories	**867**	966	1,149	1,287
Prepaid expenses	**57**	49	23	46
Total current assets	**3,674**	3,547	3,103	3,684
Investments in shares	**125**	111	106	92
Property, plant and equipment, net	**7,870**	7,755	7,716	8,540
Goodwill, net	**2,102**	2,085	2,222	2,359
Other accounts receivable – long-term	**213**	298	376	–
Other assets	**322**	156	127	69
Total assets	**14,306**	13,953	13,649	14,745
Liabilities and Stockholders' Equity				
Current liabilities:				
Current portion of long-term debt	**11**	12	–	223
Suppliers	**580**	602	416	464
Other accounts payable and accrued expenses	**495**	622	640	773
Total current liabilities	**1,086**	1,236	1,056	1,459
Long term debt	**1,531**	1,596	1,630	2,076
Pension plans and seniority premiums	**289**	143	161	194
Deferred income tax and other long-term liabilities	**1,045**	1,113	1,388	1,492
Excess of book value on the cost of shares	**–**	3	–	–
Total liabilities	**3,951**	4,091	4,235	5,221
Stockholders' equity:				
Capital stock	**4,352**	4,352	4,352	4,352
Additional paid in capital	**628**	624	621	608
Retained earnings	**7,457**	6,953	6,433	6,501
Deficit from restatement	**(2,082)**	(2,067)	(1,992)	(1,938)
Total stockholders' equity (majority interest)	**10,355**	9,862	9,414	9,523
Minority interest	**–**	–	–	–
Total liabilities and stockholders' equity	**14,306**	13,953	13,649	14,745

Embotelladoras Arca, S.A. de C.V. and Subsidiaries

Consolidated Income Statement[1]

(In millions of Mexican Pesos in purchasing power as of December 31, 2005)

December 31,	**2005**	2004	2003	2002
Sales volume (MUC)	**435.6**	416.9	416.9	410.6
Net sales	**14,647**	14,329	15,150	14,863
Cost of sales	**(7,545)**	(7,266)	(7,262)	(6,779)
Gross profit	**7,102**	7,062	7,888	8,083
Selling expenses	**(3,365)**	(3,435)	(3,862)	(4,002)
Administrative expenses	**(970)**	(1,098)	(1,271)	(1,311)
Operating income (excludes non-recurring expenses)	**2,767**	2,529	2,755	2,771
Non-recurring expenses[2]	**(43)**	(151)	(323)	(157)
	2,724	2,378	2,433	2,614
Comprehensive financing cost:				
Interest income (expense), net	**29**	(29)	(209)	(130)
Exchange gain (loss), net	**(34)**	(13)	9	(131)
Monetary position gain (loss)	**(15)**	(4)	26	101
	(20)	(46)	(174)	(160)
	2,704	2,332	2,259	2,454
Other income (expense)	**96**	399	(199)	(48)
Equity earnings of affiliates and minority interest	**2**	5	6	3
Income before the following provisions	**2,802**	2,737	2,065	2,410
Provisions for:				
Income asset tax	**(683)**	(642)	(748)	(765)
Employees' profit sharing	**(161)**	(184)	(226)	(280)
Total provisions	**(845)**	(827)	(973)	(1,045)
Consolidated net income	**1,957**	1,910	1,092	1,364
Number of shares	**806,020**	806,020	806,020	806,020
Depreciation and amortization	**668**	788	815	827
EBITDA (excludes non-recurring expenses)	**3,436**	3,317	3,570	3,597
CAPEX	**780**	848	569	527

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 3.I "Long-lived Assets" in the Audited Financial Statements).

Embotelladoras Arca, S.A. 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 generally accepted accounting principles.

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 Mexican generally accepted accounting principles 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

Embotelladoras Arca, S.A. de C.V. and Subsidiaries

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

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

Monterrey, N. L., Mexico, March 8, 2006

We have audited the consolidated balance sheets of Embotelladoras Arca, S. A. de C. V. and subsidiaries as of December 31, 2005 and 2004, 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 auditing standards generally accepted 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 have been prepared in conformity with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles 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. de C. V. and subsidiaries as of December 31, 2005 and 2004, 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 accounting principles generally accepted.

PricewaterhouseCoopers

Jose Antonio Quesada P.

Embotelladoras Arca, S.A. de C.V. and Subsidiaries

Consolidated Balance Sheets

(Notes 1, 2 and 3)
(Thousands of Mexican pesos of December 31, 2005 purchasing power)

December 31,	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	**Ps 1,949,869**	Ps 1,843,662
Trade accounts receivable (less allowance for doubtful accounts of Ps 44,495 in 2005 and Ps 35,004 in 2004)	**523,445**	459,393
Other accounts receivable (Nota 4)	**276,836**	228,342
Inventories (Nota 5)	**866,679**	966,199
Prepaid expenses	**56,991**	49,420
Total current assets	**3,673,820**	3,547,016
Other accounts receivable long-term (Note 4)	**212,760**	298,295
Investment in shares (Note 6)	**124,606**	111,137
Property, plant and equipment, net (Note 7)	**7,870,152**	7,754,548
Goodwill, net (Note 8)	**2,102,071**	2,085,426
Other assets	**322,335**	156,253
Total assets	**Ps14,305,744**	Ps 13,952,675
Liabilities and Stockholders' Equity		
Current liabilities:		
Suppliers	**Ps 579,556**	Ps 602,066
Current portion of long-term debt (Note 9)	**11,139**	12,056
Sundry creditors and accrued expenses	**321,622**	363,953
Employees' profit sharing payable (Note 14)	**173,718**	196,128
Income tax payable (Nota 14)	**–**	61,767
Total current liabilites:	**1,086,035**	1,235,970
Long-term debt (Note 9)	**1,531,242**	1,595,817
Labor obligations (Note 10)	**288,594**	143,171
Deferred income tax (Note 14)	**1,045,070**	1,112,995
Excess of book value on the cost of shares (Note 8)	**–**	2,613
Total liabilities	**3,950,941**	4,090,566
Contingencies (Note 11)		
Stockholders' equity (Note 12):		
Contributed capital stock	**4,351,929**	4,351,929
Additional paid in capital	**628,480**	624,004
Retained earnings	**7,452,802**	6,948,988
Cumulative translation adjustment of foreign subsidiary	**4,673**	6,017
Stockholders' reduction from labor obligations	**(882)**	(1,741)
Deficit from restatement	**(2,082,342)**	(2,067,229)
Total majority interest	**10,354,660**	9,861,968
Minority interest	**143**	141
Total stockholders' equity	**10,354,803**	9,862,109
Total liabilities and stockholders' equity	**Ps14,305,744**	Ps 13,952,675

The accompanying notes are an integral part of these consolidated financial statements.

Francisco Garza E.
Chief Executive Officer

Adrian Wong B.
Chief Financial Officer

Embotelladoras Arca, S.A. de C.V. and Subsidiaries

Consolidated Statements of Income

(Notes 1, 2 and 3)
(Thousands of Mexican pesos of December 31, 2005 purchasing power)

December 31,	**2005**	2004
Net sales	**Ps14,646,950**	Ps 14,328,741
Cost of sales	**(7,546,595)**	(7,274,738)
Gross margin	**7,100,355**	7,054,003
Administrative expenses	**(972,529)**	(1,160,973)
Selling expenses	**(3,404,157)**	(3,515,077)
	(4,376,686)	(4,676,050)
Operating income	**2,723,669**	2,377,953
Financing cost:		
Interest expense net	**29,262**	(29,191)
Exchange income (loss), net	**(34,060)**	(13,285)
Loss from monetary position	**(14,818)**	(3,562)
	(19,616)	(46,038)
	2,704,053	2,331,915
Other income (expense), net (Note 13)	**96,410**	(69,130)
Equity in income of affiliates	**1,539**	5,683
Special item (Note 2)	**–**	468,377
Income before provisions for income tax and employees' profit sharing	**2,802,002**	2,736,845
Provisions for (Note 14):		
Income tax	**(683,491)**	(642,260)
Employees' profit sharing	**(161,058)**	(184,300)
	(844,549)	(826,560)
Income before minority interest	**1,957,453**	1,910,285
Minority interest	**(27)**	(23)
Net income	**Ps 1,957,426**	Ps 1,910,262
Net income per share	**Ps 2.42**	Ps 2.36
Weighted average shares outstanding	**806,020**	806,020

The accompanying notes are an integral part of these consolidated financial statements.

Francisco Garza E.
Chief Executive Officer

Adrian Wong B.
Chief Financial Officer

Embotelladoras Arca, S.A. de C.V. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

(Notes 1, 2 and 3)
(Thousands of Mexican pesos of December 31, 2005 purchasing power)

	Capital stock	Additional paid in capital	Retained earnings
Balance at December 31, 2003	Ps 4,351,929	Ps 621,132	Ps 6,430,588
Changes in 2004:			
Dividends declared			(1,270,758)
Acquisition of own shares		2,872	(65,944)
Minority interest			
Tax effects from prior years (Note 17)			(55,160)
Comprehensive income			1,910,262
Balance at December 31, 2004 (Note 12)	4,351,929	624,004	6,948,988
Changes in 2005:			
Dividends declared			**(1,348,040)**
Acquisition of own shares		**4,476**	**4,424**
Minority interest			
Tax effects from prior years (Note 17)			**(109,996)**
Comprehensive income			**1,957,426**
Balance at December 31, 2005 (Note 12)	**Ps 4,351,929**	**Ps 628,480**	**Ps 7,452,802**

The accompanying notes are an integral part of these consolidated financial statements.

Francisco Garza E.
Chief Executive Officer

Adrian Wong B.
Chief Financial Officer

Cumulative translation adjustment of foreign subsidiary	Stockholders' reduction from labor obligations	Deficit from restatement	Total majority interest	Minority interest	Total stockholders' equity
Ps 6,391	(Ps 3,652)	(Ps 1,992,184)	Ps 9,414,204	Ps 138	Ps 9,414,342
			(1,270,758)		(1,270,758)
			(63,072)		(63,072)
				3	3
			(55,160)		(55,160)
(374)	1,911	(75,045)	1,836,754		1,836,754
6,107	(1,741)	(2,067,229)	9,861,968	141	9,862,109
			(1,348,040)		**(1,348,040)**
			8,900		**8,900**
				2	**2**
			(109,996)		**(109,996)**
(1,344)	**859**	**(15,113)**	**1,941,828**		**1,941,828**
Ps 4,673	**(Ps 882)**	**(Ps 2,082,342)**	**Ps10,354,660**	**Ps 143**	**Ps10,354,803**

Embotelladoras Arca, S.A. de C.V. and Subsidiaries

Consolidated Statements of Changes in Financial Position

(In thousands of Mexican pesos in purchasing power of December 31, 2005)

December 31,	**2005**	2004
Operating activities		
Consolidated net income	**Ps 1,957,426**	Ps 1,910,262
Items not affecting resources:		
Allowance for doubtful accounts	**22,600**	2,661
Depreciation and amortization	**670,630**	654,606
Gain from sale of the “Joya” brand	**–**	(468,377)
Allowance for disposal of fixed assets	**19,390**	173,058
Labor obligations	**21,830**	(11,278)
Equity in income of affiliates	**(1,539)**	(5,683)
Goodwill amortization	**–**	134,755
Write-off goodwill	**(2,613)**	–
Deferred income tax	**(66,151)**	(274,742)
	2,621,573	2,115,262
Changes in operating assets and liabilities:		
Trade and other accounts receivable	**(49,611)**	129,720
Inventories	**85,946**	107,937
Prepaid expenses and other assets	**(5,690)**	(26,402)
Suppliers	**(22,510)**	185,938
Tax effects from prior years	**(109,996)**	(55,160)
Other accounts payable and accrued expenses	**(170,221)**	(16,382)
Resources proivded by operating activities	**2,349,491**	2,440,913
Financing activities:		
Long term debt	**(65,492)**	(22,520)
Dividends declared	**(1,348,040)**	(1,270,758)
Acquisition of own shares	**8,900**	(63,073)
Resources used in financing activities	**(1,404,632)**	(1,356,351)
Investing activities:		
Property, plant and equipment, net	**(780,072)**	(848,147)
Goodwill from the acquisition of Comercial Lama, S.A. de C.V. y Akua Briss, S.A. de C.V.	**(16,645)**	–
Investment in shares of Compañia de Servicios de Bebidas Refrescantes, S.A. de C.V.	**(13,469)**	–
Goodwill from the acquisition of Innovadora de Esencias, Aromas y Sabores, S. A. de C. V.	**–**	3,015
Purchase of formulas of the “Joya” brand	**–**	(71,092)
Sale of the “Joya” brand	**–**	539,469
Intangible assets	**(27,122)**	(52,287)
Cumulative translation adjustment of foreign subsidiary	**(1,344)**	(374)
Resources used in investing activities	**(838,652)**	(429,416)
Increase (decrease) in cash and cash equivalents	**106,207**	655,146
Cash and cash equivalents at beginning of year	**1,843,662**	1,188,516
Cash and cash equivalents at end of year	**Ps 1,949,869**	Ps 1,843,662

The accompanying notes are an integral part of these consolidated financial statements.

Francisco Garza E.
Chief Executive Officer

Adrian Wong B.
Chief Financial Officer

Notes to the Consolidated Financial Statements as of and for the years ended December 31, 2005 and 2004

(Thousands of pesos of December 31, 2005 purchasing power, thousands of "US" dollars or thousands of "EUR" euros except for figures corresponding to the number and market value of shares and exchange rates)

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Embotelladoras Arca, S. A. de C. V. (Arca) is a company whose main activity consists in the production, distribution and sale of soft drinks of brands property of The Coca-Cola Company (TCCC), as well as other brands owned by Arca and third parties. Under a bottling agreement with The Coca-Cola Company (TCCC), Arca has exclusive rights to perform 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 performs its activities through wholly owned subsidiaries or subsidiaries of which it controls, directly or indirectly, the majority of common shares representative of their capital stock. The term "the Company", as used in this report, refers to Arca and its subsidiaries.

NOTE 2 – RELEVANT EVENTS

For the years ended December 31, 2005 and 2004, Arca carried out the following transactions:

1. At February 2, 2005, Arca jointly with 13 Mexican bottling companies and The Inmex Corporation, formed a Mexican mercantile society under the name of Compañía de Servicios de Bebidas Refrescantes, S.A. de C.V. (Salesko), whose objective is to produce, sell and distribute in supermarkets, hypermarkets, price clubs, convenience stores and regional and national chains of drugstores, non-carbonated drinks with the brands of the Coca Cola Company, and/or licensed to the latter by third parties, as well as the rendering of all kinds of logistics for commercialization services, excluding purified water. The wholly subscribed and paid in capital stock of this company by Arca amounted to Ps.8 with respect to its fixed portion and Ps.16,992 corresponding to its variable portion, which represents 17% of the total capital of Salesko. (See Note 6).

2. At May 19, 2005, Arca acquired 100% of the shares of Embotelladora Acueducto, S. A de C. V. (Acueducto). As from this date, Acueducto becomes responsible for the sale of water in presentations of less than 10 liters.

3. 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. Derived from the aforementioned, Arca shall cover a consideration in the amount of US$20,185 as follows:

(1) May 2006	US$	4,183
(2) May 2007		4,522
(3) May 2008		4,282
(4) May 2009		3,706
(5) May 2010		3,492
	US$	20,185

4. In a Meeting held at September 27, 2005 the Board of Directors approved the acquisition of Akua Briss, S. A. de C. V. and Comercial Lama, S. A. de C. V., present franchisee of the brand "Agua de Mesa Junghanns", which ceases to be used as of February 28, 2005. On December 1, 2005, Arca acquired 100% of the shares of the aforementioned company and consolidates its financial information as from that date.

5. Following are the consolidated subsidiaries of which Arca owns, directly or indirectly, 100% of their capital stock, except where otherwise indicated:

Manufacturing companies

Bebidas Mundiales, S. A. de C. V. (Bemusa)
Compañía Topo Chico, S. A. de C. V. (Topo Chico) (1)
Embotelladora Tamaulipeca, S. A. de C. V. (Etsa)
Sello Tapa, S. A. de C. V. (Sello Tapa)
Interex, Corp. (Interex)
Embotelladora El Carmen, S. A. de C. V. (El Carmen)
Embotelladoras del Norte de Coahuila, S. A. de C. V. (Encsa)
Compañía Embotelladora del Pacífico, S. A. de C. V. (Cepsa)
Compañía Embotelladora de Baja California Sur, S. A. de C. V. (Cebcsa)
Industrial de Plásticos Arma, S. A. de C. V. (Ipasa)
Embotelladora de la Frontera, S. A. de C. V. (Efsa) (2)
Embotelladora de Chihuahua, S. A. de C. V. (Ecsa)
Compañía Embotelladora de Culiacán, S. A. de C. V. (Cecusa)
Embotelladora de Mexicali, S. A. de C. V. (Emsa)
Embotelladora Pitic, S. A. de C. V. (Pitic) (3)
Embotelladora Acueducto, S. A. de C. V. (Acueducto)
Comercial Lama, S. A. de C. V. (Comercial Lama)
Akua Briss, S. A. de C. V. (Akua Briss)

Holding, real estate or service companies

Publicidad Eficaz, S. A. de C. V. (Pesa)
Publicidad y Servicios Arca, S. A. de C. V. (Pysa)
Arca Corporativo, S. A. de C. V. (Arcosa)
Desarrolladora Arca, S. A. de C. V. (Dasa)
Embotelladoras Argos, S. A. (99.68%) (Easa) (4)

(1) In July 2005, the stockholders' meeting approved the merger of Innovadora de Esencias, Aromas y Sabores, S. A. de C. V. (Ideas) with Topo Chico, the latter acting as the merging company.
(2) In January 2004, the stockholders' meeting approved the merger of Distribuidora de Bebidas Arca, S. A de C. V. and Productora de Hielo del Norte, S. A. de C. V. with Efsa, the latter acting as the merging entity.
(3) In January 2004, the stockholders' meeting approved the merger of Compañía Embotelladora de Nueva Obregón, S. A de C. V. with Pitic, the latter acting as the merging company.
(4) In May 2005, the stockholders' meeting approved the merger of Cuncalin, S. A de C. V. with Easa, the latter acting as the merging company.

As part of the operations restructure, Arca incurred in non-recurring expenses during 2004 (mainly severance compensations) in the amount of Ps.151,305, due to the 2% reduction of its work force.

6. On February 2, 2004, the Coca Cola Company (TCCC) authorized Arca to commercialize Coca-Cola products in the cities of Meoqui, Delicias, Camargo and Saucillo, all of which are part of the State of Chihuahua.

7. During the first quarter of 2004, Arca started operations in two sugar clarifying plants with a high production capacity expected to generate important savings in the subsequent years. During the third quarter of 2004, Arca performed certain activities relative to the programmed replacement of trucks and other investments required for the new franchise of Meoqui, Delicias, Camargo and Saucillo mentioned in paragraph No. 4 above.

8. At April 12, 2004, Arca's stockholders authorized entering into an agreement with Robótica LM, S. A. de C. V. (Robótica). This agreement was entered into on May 19, 2004 and it establishes the transfer of property and all rights of use and exploitation of concentrate formulas for different flavored drinks and/or other industrial property rights of Robótica.

9. At February 4, 2004, Arca entered into two loan agreements with Deutsche Bank Aktiengesellschaft 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 six-month LIBOR interest rate plus annual .50% with semiannual amortizations as of June 2004. These loans were obtained to finance the acquisition of a bottling line of non-soft drinks in disposable bottles, acquired from Krones AG Neutraubling, Germany.

   At December 31, 2005, the balance payable amounted US$3,347 and US$609, respectively. (US$4,323 and US$840 in 2004) This balance is stated in Mexican pesos within the financial statements amounting Ps.42,381 (Ps.57,923 in 2004). (See Note 9).

10. At April 30, 2004, Arca entered into an exclusivity supply agreement for a period of eight years for the supply of metallic crowns to Fábricas Monterrey, S. A. de C. V. (Famosa), subsidiary company 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 property of Arca destined to the production of metallic crowns, whose sales price shall reduce the value of the last exclusive price amortization by US$3,048, payable during the duration of the agreement. Famosa also agrees to supply Arca with the total requirements of metallic crown for all its territories. The amount of that exclusivity corresponding to the present year (US$254), is shown in the statement of income under other income.

11. Simultaneously at the abovementioned date, Arca entered into a supply agreement of bottle caps with Industrias Innopack, S. A. de C. V. (Innopack), and its subsidiary company Envases Innovativos de México, S. A. de C. V., for a period of five years, in order to supply plastic bottle caps with plastic security bands to Arca plants included in the agreement. Under this agreement, Innopack agrees to supply Arca with the total requirements of plastic bottle caps in some of its territories.

12. At July 1, 2004, Arca entered into a supply agreement of bottle caps with Alcoa CSI de México in Saltillo, S. A. de C. V. (Alcoa), for a period of three years and a half, in order to supply bottle caps with plastic security bands to Arca plants included in the agreement. Under this agreement, Alcoa agrees to supply Arca with the total requirements of plastic bottle caps in some of its territories.

13. At September 23, 2004, Arca signed a definitive agreement with TCCC through which it sold the multi-flavored Joya brand products and the formulas of the concentrate. This sale amounted US$57,658, which resulted in an income of Ps.468,377 as shown in the Statement of Income under a special item. To this date, Joya continues being produced and distributed by Arca and it is supported by TCCC. At that same date, the Arca announced the signature of a new franchise agreement with TCCC. This agreement replaces several agreements effective for a shorter period effective up to that day. The new agreement is effective for an initial period of 10 years and it considers the renewal for an additional ten-year period.

14. In a general ordinary meeting held on October 25, 2004, the stockholders approved Bemusa's subscription and implementation of the Agreement of Productive Chains for the development of suppliers proposed by Nacional Financiera, S. N. C. in order to perform discount operations, factoring and rediscount of invoice and/or any other type of document or credit instrument, including debt certificates issued or discretionally granted by Bemusa to its suppliers including loan rights payable by Bemusa to its suppliers for a total maximum of revolving Ps.50,000 (thousands of nominal pesos).

NOTE 3 –SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by Arca and observed in the preparation of these financial statements are summarized below.

a. Basis of presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Mexico, as promulgated by the Mexican Institute of Public Accountants (MIPA). (See incise 13 following)

b. Basis of consolidation

The consolidated financial statements include the net assets 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.

c. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates.

d. 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 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, 2005 as follows:

- The financial statements of Mexican holding companies and subsidiaries have been restated to pesos as of December 31, 2005 by applying to the year-end balances of constant pesos of each period an inflation factor derived from the National Consumer Price Index (NCPI), published by Banco de México (the Central Bank of Mexico).
- The financial statements of the foreign subsidiary have been restated to pesos as of December 31, 2005, by applying to the year-end foreign currency balances the National Consumer Price Index (NCPI) of the foreign country in which the subsidiary operates and by applying the exchange rate as of December 31, 2005, as described in e.

The factors derived from NCPI used to restate prior years financial statements were 3.33% and 5.19% for 2005 and 2004 respectively.

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

i) Financing cost

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 resulting 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 measures by NCPI factors.

iii) Restatement of stockholders' equity

The capital stock, paid-in capital and retained earnings accounts include the effect from 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 constant pesos of December 31, 2005.

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.

e. Translation of foreign subsidiary

The financial statements of foreign subsidiaries have been translated to Mexican pesos as of December 31, 2005.

f. Cash and cash equivalents

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

g. Inventories and cost of sales (Note 5)

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 consist 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 not acceptable for their 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.

Charges to income from broken and withdrawn bottles would correspond approximately to the amortization calculated over the replacement cost, by using the straight-line method based on their estimated useful lives.

h. Investment in securities (Note 6)

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.

i. Property, plant and equipment, net (Note 7)

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 discarded from the accounts and any resulting gain or loss is recorded in income in the item "Other income (expense), net". (See Note 13).

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%

In the case of assets showing loss from impairment, see paragraph l. below.

j. Goodwill (Note 8)

This item is expressed at its restated value by applying factors derived from the NCPI to the historical cost.

On January 1, 2005, the standards contained in Statement B-7 "Business acquisitions" issued by the Mexican Institute of Public Accountants (MIPA) became effective. This Statement eliminates the amortization of goodwill and instead subjects it to testing for impairment on an annual basis, or before, in the event circumstances occur that indicate the existence of a possible impairment.

k. Other assets

Other assets represent services, goods or rights, which are amortized during the period when they are estimated to yield profits. Other assets are evaluated periodically in relation with the possibility of their continuing yielding future profits. The main concepts comprised in this item correspond to software licenses, intangible assets and labor obligations. (See Note 10).

This item also includes intangible assets regarding 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.

l. Long-lived assets

As from January 1, 2004, the company adopted Statement C-15 "Impairment in the Value of Long-Lived Assets and their Disposal", issued by the Mexican Institute of Public Accountants (IMCP), which 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 the 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 assets may not be recovered. In the case of the excess of cost over the value of books of subsidiaries acquired, the company evaluates its recovery on an annual basis.

The recovery value of assets to be kept by the Company for their use is determined through the net estimated discounted cash flow that is expected to be generated by the assets or the net price of the sale, whichever is greater. When required, an impairment loss is recognized for the excess in net value recorded and the estimated recovery value of the assets. The net sales price is determined as from the market value or of the value of transactions with similar assets less the disposition costs.

In the case of assets available for sale, these are valued at the lower of the net value in books or the net sales price and, when required, an impairment loss is determined for the resulting difference. These assets are restated by using factors derived from the NCPI and are not depreciated or amortized.

During 2004, the Company incorporated the provision for the closing of lines detailed in Note 7, which it estimates to have a relative recurrency.

m. Labor obligations (Note 10)

In accordance with Mexican Labor Law, Mexican 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" issued by the MIPA. 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.

n. Income tax, asset tax and employees' profit sharing (Note 14)

Income tax is recorded by the comprehensive asset-and-liability method, which consists in 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 profit sharing purposes which it may reasonably be presumed will result in a future liability or benefit.

o. Financial instruments (Note 18)

Arca uses derivative financial instruments with the purpose of reducing its exposure to adverse fluctuations in foreign exchange rates or in some liabilities expressed in foreign currency.

Instruments contracted with hedging purposes are valued by using the same criterion of hedged assets and liabilities, and the changes in value are recorded in income for the year. Interests are recorded in the statement of income in the period in which they are accrued.

In April 2004, the MIPA issued Statement C-10 "Derivative Financial Instruments and Hedge Transactions ", effective January 1, 2005 onwards. This Statement sets the characteristics that financial instruments should have in order to be considered derivative, the conditions that should be met to consider a derivative as a hedge transaction and the applicable accounting treatment.

p. Acquisition of own shares

Shares acquired are shown as a decrease in retained earnings and 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, the amount obtained in excess or the deficit of the restated cost of such shares, is recognized within the Additional paid in capital.

Shares not replaced in the market in the year following their acquisition date, will be reduced from capital.

q. 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 a weekend promotion. In addition, sales discounts also may be granted to large retailers. These promotional payments are accounted for as a reduction to revenue.

r. Selling and administrative expenses

Selling expenses consist primarily of marketing and advertising expenditures, commissions and benefits for 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.

Fees to salesmen are recorded as selling expenses.

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

s. Advertising and incentive payments from TCCC

Advertising costs are expensed as incurred. 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 these campaigns. The resources received from advertising and promotional incentives are accounted for as a reduction of selling expenses.

t. Foreign currency transactions (Note 15)

Transactions denominated in foreign currency are recorded at the exchange rate in effect at the date they are translated. 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 year.

u. 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, 2004 and 2003, there are 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.

v. Concentration risk

Financial instruments, which potentially subject Arca to significant concentration of credit risk, consist primarily of cash and cash equivalents, trade accounts receivable, other accounts receivable and long-term debt.

Arca maintains its cash and cash equivalents with various major financial institutions, and are principally invested in short term investments and money market accounts.

Concentrations 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, 2005 and 2004, approximately 94% and 89%, respectively, of Arca's net sales, consisted of products sold under trademarks property of TCCC. The expiration date of the new bottling agreement with TCCC is 2014 (See Note 2 point No. 11), with the possibility of renewal.

During Arca's 79-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 increases the prices of concentrate for soft drinks, Arca's results of operations could be adversely affected.

w. Financial lease (Note 19)

Financial lease investment at beginning of the year includes the sum of 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 a financial income to be accrued, 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 is too low in relation with 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 income is accrued.

x. 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 subsidiaries, 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 is comprised of the following:

December 31,	**2005**	2004
Net income	**Ps1,957,426**	Ps 1,910,262
Cumulative translation adjustment of foreign subsidiary	**(1,344)**	(374)
Stockholders' equity reduction from labor obligations	**859**	1,911
Loss from holding non-monetary assets	**(15,113)**	(75,045)
Comprehensive income, net	**Ps1,941,828**	Ps 1,836,754

y. New accounting Statements

Beginning June 1, 2004, the Mexican Financial Reporting Standards Board - (CINIF, for its initials in Spanish), assumed the responsibility for setting accounting and reporting standards in Mexico. In compliance with this responsibility and after due exposure in 2004 and 2005, the CINIF issued several Financial Reporting Standards – (NIFs) that will become effective on January 1, 2006. The main objective of the NIFs is to achieve the maximium possible harmonization and convergence Mexican accounting and reporting standards and regulation practices with International Financial Reporting Standards (IFRS).

The full hierachy of NIFs, in effect beginning January 1, 2006, is as follows:

- NIFs and Interpretations of NIFs issued by the CINIF.
- Statements issued by the Accounting Principles Board of the Mexican Institute of Public Accountants (IMCP) that have not been modified, replaced or repealed by the new NIFs.
- IFRS, which when in Mexican.

The circulars issued by the Accounting Principles Board will continue to have the status of recommendations and will be part of the NIFs until such time as they are repealed or superseded by NIFs.

Being mainly of a general nature, they are not expected to have a significant effect on financial reporting:

NOTE 4 – OTHER ACCOUNTS RECEIVABLE, SHORT AND LONG-TERM

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

December 31,	**2005**	2004
Short-term accounts receivable:		
Amcor (1)	**Ps 65,591**	Ps 55,731
Sundry Debtors	**211,245**	172,611
	Ps 276,836	Ps 228,342
Long-term accounts receivable:		
Amcor (1)	**Ps 207,636**	Ps 283,225
TV Azteca Noreste, S. A. de C. V. (2)	**5,124**	15,070
	Ps 212,760	Ps 298,295

(1) Total operation amounts to Ps.273,227 (Ps. 338,956 in 2004) derived from the sale of injection and blowing assets through a financial lease program. See Note 19.
(2) It corresponds to 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 maturities as of September 2005.

NOTE 5 – INVENTORIES

Inventories consist of the following:

December 31,	**2005**	2004
Raw materials	**Ps 157,095**	Ps 185,079
Finished products	**194,343**	184,809
Materials and spare parts	**157,589**	162,063
Bottles and cases	**327,667**	410,675
Advances to suppliers and other	**29,985**	23,573
	Ps 866,679	Ps 966,199

NOTE 6 - INVESTMENT IN SHARES

Investment in shares consist of the following:

	% stock ownership	December 31, **2005**	December 31, 2004
Industria Envasadora de Querétaro, S. A. de C. V. (1)	23.58%	**Ps102,171**	Ps 102,009
Promotora Mexicana de Embotelladoras, S. A. de C. V. (1)	20.00%	**8,960**	9,122
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%	**13,469**	–
		Ps124,606	Ps 111,137

(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 7 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following:

December 31,	2005	2004
Land	Ps 1,470,238	Ps 1,428,927
Buildings	2,945,039	2,913,802
Machinery and equipment	5,268,274	5,005,674
Transportation equipment	2,589,375	2,797,868
Refrigerators and sales equipment	1,637,317	1,674,016
Computer equipment	287,752	260,129
Office equipment	311,619	314,470
Construction in progress and other	248,930	129,918
	14,758,544	14,524,804
Accumulated depreciation	(6,888,392)	(6,770,256)
	Ps 7,870,152	Ps 7,754,548

Depreciation charged to income in 2005 and 2004, was of Ps.645,070 and Ps.636,303 respectively.

The Company's Management has deemed necessary to constitute provisions for the closing or temporary suspension of some production lines; therefore, at December 31, 2005 it maintains a reserve in El Carmen in the amount of Ps.54,000.

This provision constitutes the estimated amount of expenditures and takes into consideration possible recovery values; however, it is not supported by a technical impairment study. The Company's Management estimates that this amount is the best reasonable approximation at the date in accordance with the elements it obtained for its calculation. The company also uses judgment elements from the operation planning strategy for its short term operations.

NOTE 8 – GOODWILL

The goodwill is comprised as follows:

December 31,	2005	2004
Positive Goodwill		
a) Acquisition of companies	Ps1,439,708	Ps 1,439,708
b) "Excess of cost of shares of subsidiaries on the book value"	1,314,069	1,297,424
	2,753,777	2,737,132
Accumulated amortization	(651,706)	(651,706)
	Ps2,102,071	Ps 2,085,426
Negative Goodwill		
"Excess of book value on the cost of shares"		Ps 3,015
Accumulated amortization		(402)
		2,613

Due to the application of Statement B-7, the company ceased to amortize goodwill as from January 1, 2005, which represented an annual charge of approximately Ps.135,000 to income. The amortization charged to income in 2004 amounted Ps.134,755.

On May 19, 2004 Arca acquired 100% of the shares of Ideas, recording the excess of book value on the cost of shares in an amount of Ps.2,918. Ideas merged with Topo Chico, See Note 2 and due to the adoption of the standards container in Statement B-7, this excess was charged to income for the year.

At December 1, 2005, Arca acquired 100% of the shares of Akua Briss and Comercial Lama, recording the excess of book value on the cost of shares in an amount of Ps.7,821 y Ps.8,824, respectively.

Arca's Management does not consider necessary to perform a formal study on impairment, since it considers its cash generating units have not been affected by changes in market conditions and are expected to continue with their high generation of cash; consequently, it does not estimate income for 2005 to be significantly affected by the application of the aforementioned statement.

NOTE 9 – SHORT-TERM AND LONG-TERM DEBT

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

December 31,	**2005**	2004
Stock certificates	**Ps 1,500,000**	Ps 1,549,950
Bank loan	**42,381**	57,923
Total liabilities from bank loans	**1,542,381**	1,607,873
Short-term debt		
Current portion of long-term debt	**(11,139)**	(12,056)
Long-term debt	**Ps 1,531,242**	Ps 1,595,817

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

Expenses incurred from the issuance of stock certificates amounted to Ps.9,092, which were capitalized and amortized in a five-year period. At December 31, 2004, the amortization of those expenses amounted Ps.1,799 (Ps.1,789 in 2004) and are included in "Administrative expenses."

The loan agreement described in Note 2 paragraph 9 contains restrictions, mainly regarding the compliance with the delivery of financial information, notification of relevant events, among others. Failure to comply with the aforementioned 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 satisfactorily complies with such restrictions and commitments.

As of December 31, 2005 and 2004, Arca has unused lines of credit for Ps.4,320,000. Arca does not pay any commitment fee over the unused amounts.

NOTE 10 – LABOR OBLIGATIONS

Arca has several employees' benefit plans (see Note 3 m). 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.

Some of Arca's subsidiaries make voluntary contributions from time to time for the pension, postretirement and seniority premium plans, which are tax deductible. As of December 31, 2005 and 2004, the assets of the pension, postretirement and seniority premium trusts are invested in bonds and securities issued by the Mexican Government, debt instruments investment companies or approved by the National Banking and Securities Commission (CNBV) under applicable tax dispositions.

The following information shows the changes in labor obligations and coverage through funds for the years ended December 31, 2005 and 2004 relative to the balances shown in the consolidated balance sheet.

December 31,	**2005**	2004
Change in benefit obligation:		
Benefit obligation at the beginning of the year	**Ps 655,930**	Ps 617,743
Benefit obligation at the beginning of the year of merged companies (See Note 2)	**(20,388)**	(74,533)
Service cost	**68,609**	35,369
Interest cost	**29,221**	29,874
Improvements to the plan and previous services	**(30,357)**	–
Effect of personnel transferred	**11,163**	74,533
Benefits paid	**(41,257)**	(47,388)
(Gain) loss from real benefit obligation	**(3,215)**	20,332
Benefit obligation at the end of the year	**Ps 669,706**	Ps 655,930
Change in plan asset:		
Fair value of the plan asset at the beginning of the year	**Ps 268,580**	Ps 239,446
Fair value of the plan asset at the beginning of the year of merged companies	**(20,388)**	(32,552)
Actual return on plan assets	**26,663**	2,382
Purchases/Transfers	**684**	32,552
Arca's contribution	**123,287**	68,653
Benefit paid	**(41,257)**	(42,704)
Fair value of the plan asset at the end of the year	**Ps 357,569**	Ps 267,777

Pension, postretirement and seniority premium benefits are paid when they become due.

The accounting for health care benefit plan involves assumptions in relation to health care cost trend rates, which have a significant effect on the amounts reported.

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

December 31,	**2005**	2004
Projected benefit obligation	**Ps 669,706**	Ps 655,930
Transition liability	**(162,546)**	(179,694)
Unamortized actuarial gains and losses	**(40,656)**	(79,062)
Plan assets	**(357,569)**	(267,777)
Projected net liability (1)	**Ps 108,935**	Ps 129,397
Accumulated benefit obligation	**Ps 367,318**	Ps 237,735
Accumulated net liability (2)	**Ps 274,205**	Ps 85,919
Minimum additional liability (2)	**Ps 165,113**	Ps 11,843
Intangible asset	**(162,235)**	(10,102)
Stockholder's equity reduction	**Ps 2,878**	Ps 1,741

(1) This concept includes projected net assets for compensations of Ps.6,945.

(2) These concepts correspond to the sum of the amounts determined for each one of the subsidiaries that have personnel and for each of the plans and compensations established by them.

December 31,	**2005**	2004
Average remaining service life (in years):		
Pensions	**19**	19
Seniority premiums	**15**	15
Postretirement benefits	**12**	18

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

December 31,	**2005**	2004
Service cost	**Ps 42,441**	Ps 37,631
Financial cost	**33,317**	32,062
Expected return on assets	**(15,213)**	(17,524)
Amortization of net transition obligation	**36,216**	22,619
Amortization of actuarial gains and losses	**2,787**	4,468
Effect of extinction of obligations	**493**	–
Estimated cost of the definite contribution component	**17,952**	–
	Ps117,993	Ps 79,256

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,	**2005**	2004
Weighted discount rate	**5%**	5%
Estimated return on plan assets	**6%**	6%
Increase rate in salaries	**1.5%**	1.5%

NOTE 11 – CONTINGENCIES

a) Bottling agreements

The bottling agreement entered into with TCCC, provides that, Arca may not bottle any products other than Coca-Cola products, except from 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 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 term.

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 perform certain commercial practices that constitute violations to the Federal Antitrust Law.

Arca filed a request for an injunction against these resolutions and other acts before the MAC, which are in process.

c) Refrescos Unión

In March 2004, Refrescos Unión, S. A. de C. V. (Union) initiated a legal procedure against Arca for presumable rights obtained as per the franchise agreement entered into with TCCC to market the trademarks of the latter in the territories of Meoqui, Delicias, Camargo and Saucillo in the state of Chihuahua. Arca defended its rights, based on the fact that there is no contractual connection of any kind between Arca and Union. On February 23, 2006, the Fifth Civil Court of the Superior Justice Court of the Federal District granted a favorable resolution to Arca in connection with the appeals filed by Unión. It is worthwhile mentioning, that Unión has a term of fifteen working days to file a claim against this resolution.

d) Contingent liabilities

At December 31, 2005 and 2004 Arca has contingent liabilities 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 dispositions.

NOTE 12 – STOCKHOLDERS' EQUITY AND RETAINED EARNINGS

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

	2005			2004
	Nominal value	**Restatement**	**Total**	Total
Stockholders´ equity	**Ps 50,000**	**Ps 4,301,929**	**Ps 4,351,929**	Ps 4,351,929
Additional paid in capital	**516,274**	**112,206**	**628,480**	624,004
	566,274	**4,414,135**	**4,980,409**	4,975,933
Retained earnings	**8,536,027**	**(1,083,225)**	**7,452,802**	6,948,988
Cumulative translation adjustment of foreign subsidiary	**4,673**	**–**	**4,673**	6,107
Stockholders' reduction from labor obligations	**(882)**	**–**	**(882)**	(1,741)
Deficit from restatement	**–**	**(2,082,342)**	**(2,082,342)**	(2,067,229)
	8,539,818	**(3,165,567)**	**5,374,251**	4,886,035
Total majority interest	**9,106,092**	**1,248,568**	**10,354,660**	9,861,968
Minority interest	**143**	**–**	**143**	141
Total stockholders' equity	**Ps9,106,235**	**Ps 1,248,568**	**Ps10,354,803**	Ps 9,862,109

The authorized capital stock is variable with a fixed unredeemable minimum of Ps. 46,360, and a variable portion that shall 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, 2005 and 2004, the Arca's capital stock consists 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

Upon quoting the representative shares of Arca's capital stock 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 26 and November 3, 2005, the stockholders agreed to distribute a dividend of Ps.0.80 and Ps.0.85 per share, respectively.

In General Ordinary Meetings held on April 27 and November 3, 2004, the stockholders agreed to distribute a dividend of Ps.0.70 and Ps.0.80 per share, respectively.

In a meeting held on April 23, 2002, the stockholders approved the maximum amount of resources that could be destined to the purchase of own shares at Ps.400,000 (thousand of nominal pesos), amount that was ratified in the stockholders' meeting held on April 26, 2005. At the year ended December 31, 2005, the total amount of shares was 3,430,500, equal to Ps.79,275 (3,807,300 shares equal to Ps. 83,699 in 2004). At the date of issuance of these consolidated financial statements, the market value of Arca's shares was Ps. 24.42

Some family-grouped 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 during all of our 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 our capital stock, dividend distributions in an amount other than 30% of our net profits for 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 than 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 4.22% and 7.04% 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 40.85% or 38.89% depending on whether paid 2006 and 2007, respectively. 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 investment of shareholders over balances of contributed capital accounts, will be accorded the same 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 13 – OTHER INCOME, NET

Other income (expense), net is comprised of the following:

December 31,	**2005**	2004
Loss from sales and estimates for the disposal of fixed assets	**(Ps 2,448)**	(Ps 139,473)
Return of Salary Credit Substitute Tax	**–**	55,198
Income tax receivable from prior years	**61,601**	–
Other (1)	**37,257**	15,145
	(Ps96,410)	(Ps 69,130)

(1) Includes several concepts such as: income from sale of materials and promotional articles, income from leasing, dividends received from associated companies and others.

NOTE 14 – INCOME TAX, ASSET TAX AND EMPLOYEES' PROFIT SHARING

As of 2005, the "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 (60% in 2004).

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

The income tax and employee's profit sharing provision is comprised as follows:

December 31,	**2005**	2004
Currently payable:		
Income tax	**Ps749,642**	Ps 914,366
Employees' profit sharing	**161,058**	184,300
	910,700	1,098,666
Deferred income tax	**(66,151)**	(272,106)
	Ps844,549	Ps 826,560

The following items represent the principal differences between income taxes computed at the statutory rate and Arca's provision for income tax:

December 31,	**2005**	2004
Income before income tax and employees' profit sharing	**Ps2,802,002**	Ps 2,736,845
Equity on income of affiliates	**(1,539)**	(5,683)
Income before income tax and employees' profit sharing	**2,800,463**	2,731,162
Statutory tax rate (30% in 2005 and 33% in 2004)	**(840,139)**	(901,283)
Differences between tax and financial accounting for:		
Financing cost related to inflation	**15,205**	46,704
Special tax consolidation items	**(5,494)**	(10,258)
Other non-cumulative income	**43,461**	35,675
Effect for reduction of tax rate	**40,042**	144,642
Other	**63,434**	42,260
Current and deferred income tax	**Ps 683,491**	Ps 642,260
Effective tax rate	**24%**	23%

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

December 31,	**2005**	2004
Inventory	**Ps 105,684**	Ps 192,848
Property, plant and equipment	**1,033,307**	983,988
Liabilities for pension plans and seniority premiums	**(50,994)**	(42,057)
Employees' profit sharing	**(38,760)**	–
Other	**(4,167)**	(21,784)
Total net deferred income tax liability	**Ps1,045,070**	Ps 1,112,995

In accordance with the amendments to the Income Tax Law approved as of November 13, 2004, the income tax rate will be reduced to 30% for 2004 and will continue to be gradually reduced in annual 1% until reaching 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.

Employees' profit sharing is determined at the rate of 10% on the taxable income adjusted as prescribed by the Income Tax Law for purposes of the accounting record of such tax; however, a consultation initiated before the General Administration of Major Taxpayers of the Ministry of Finance and Public Credit with respect to the application of article 10 of the Income Tax Law and to the profit sharing calculation. The authority responded to that consultation by denying a confirmation request. Furthermore, Arca promoted a nullity trial against such resolution, as a result of which it obtained a favorable sentence for 7 subsidiaries of Arca mentioned as follows: Etsa, Ecsa, Cepsa, Efsa, El Carmen, Encsa and Ipasa. The sentence for the rest of the companies that have employees remains pending.

NOTE 15 – FOREIGN CURRENCY POSITION

At December 31, 2005 and 2004, the exchange rates were: Ps.10.71 and Ps.11.21 nominal pesos to the dollar, respectively.

As of December 31, 2005 and 2004, Arca had the following foreign currency assets and liabilities:

December 31,	**2005**	2004
Monetary assets	**US$61,067**	US$ 101,071
Monetary liabilities	**(7,038)**	(8,290)
Net monetary position	**US$54,029**	US$ 92,781

ARCA's foreign currencies transactions were as follows:

December 31,	**2005**	2004
Sales	**US$ 19,447**	US$ 17,023
Purchase of raw material	**(1,968)**	(4,651)
Purchase of fixed assets	**(9,939)**	(17,529)
Services and interest	**(453)**	(115)

At March, 8, 2006, date of issuance of these audited financial statements, the exchange rate was Ps.10.70 pesos to the US dollar.

NOTE 16 – 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. Accumulated sales by product

	2005	2004	Var. %
Colas	**283,831**	277,657	2.2%
Diet soft drinks	**27,934**	25,827	8.2%
Flavors	**106,745**	100,132	6.6%
Purified water	**13,441**	10,797	24.5%
Other	**3,616**	2,464	46.7%
Total	**435,567**	416,877	

b. Accumulated sales by brand

	2005	2004	Var. %
Coca-Cola	**409,666**	371,840	10.2%
Proprietary and third party brands	**25,901**	45,037	(42.5%)
Total	**435,567**	416,877	

c. Accumulated sales by presentation and size

	2005	**% of total**	2004	% of total
Returnable	**175,756**	**40%**	197,189	47%
Non returnable	**259,811**	**60%**	219,688	53%
Total	**435,567**	**100%**	416,877	100%
Single serve	**228,856**	**53%**	226,829	54%
Multiple serve	**206,711**	**47%**	190,048	46%
Total	**435,567**	**100%**	416,877	100%

d. ARCA's sales by product, expressed in percentage of units sold, are as follows:

December 31,	**2005**	2004
Colas	**65.2%**	66.6%
Diet soft drinks	**6.4%**	6.2%
Flavors	**24.5%**	24.0%
Purified water	**3.1%**	2.6%
Other	**0.8%**	0.6%
	100%	100%

NOTE 17 – 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 involves 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) receivable from related parties are as follows:

December 31,	**2005**	2004
Transportes Especializados Regiomontanos, S. A. de C. V. (Tersa) (2)	**Ps –**	(Ps 384)
Desarrolladora Corporativa, S. A. de C. V.	**(1,902)**	–
Criotec, S. A. de C. V. (Criotec) (4)	**(131)**	(2,176)
Fevisa Industrial, S. A. de C. V. (Fevisa) (5)	**5**	(3,484)
Industria Carrocera San Roberto, S. A de C. V. (6)	**14**	(4,542)
EON México, S. A de C. V.(7)	**(17)**	(10,226)
Alineación y Balanceo del Norte, S. A. de C. V.	**–**	(10)
Novamex, S. A. de C. V.	**18**	–
Distribuidores Generales, S. A. de C. V.	**(344)**	–
Corporación Multimedios, S. A. de C. V. (CMM) (9)	**47**	–
Litografía de Saltillo, S. A de C. V.	**6**	(72)
	(Ps 2,304)	(Ps 20,894)

These amounts are included at December 31, 2005 and 2004 within the suppliers' item.

December 31,		**2005**		2004
Costs:				
Purchase of concentrate (1)	**Ps**	**–**	Ps	48,351
Freights (2) (3)		**3**		6,009
Acquisition of refrigerators (4)		**1,641**		91,665
Purchase of bottles (5)		**6**		26,028
Bodyworks (6)		**–**		7,699
Monitoring services of vending machines (7)		**–**		19,712
Insurances (8)		**123**		–
Advertising services (9)		**1,083**		–
Printing and stationery		**14**		745
Lease		**701**		–
Other		**381**		882
	(Ps	**3,952)**	(Ps	201,091)

(1) Arca purchases the concentrate for its Joya products from Ideas, a company owned, until May 18, 2004, by some of Arca's stockholders. (See Note 2). This company was merged with Topo Chico in 2005.

(2) Tersa is a transportation company owned by some of the Arca's shareholders, which received until 2005, distribution services of finished products from some of the plants to several warehouse distribution centers located in other cities in the states of Nuevo Leon and Tamaulipas.

(3) Transportes Frontera de Chihuahua, S. A. de C. V. is a company owned by some of Arca's shareholders, which received up to the beginning of 2005, distribution services of products from the Culiacan, Obregon and Hermosillo plants to various warehouse distribution centers in the states of Sonora and Sinaloa.

(4) Arca acquires refrigerators, freezers, and spare parts from Criotec, a company owned by one of Arca's shareholders.

(5) Arca purchases glass returnable bottles from Fevisa, a company owned by some of the Arca's shareholders.

(6) Industria Carrocera San Roberto, S. A. de C. V., owned by one of Arca's stockholders, provides Arca with bodyworks for its transportation and distribution equipment.

(7) EON México, S.A. de C.V., owned by one of Arca's stockholders, provides Arca with the monitoring and communication services for its vending machines.

(8) Arca acquires some insurance policies through of one of its stockholders.

(9) CMM is a company engaged in the rendering of advertising services through massive communication means principally in Saltillo, Coahuila, and in which some Arca's stockholders hold majority interest.

The Company's Management does not consider necessary to support the transactions between its subsidiaries and related parties, since these are established in national territory. However, it is estimated they approximate their market value.

Tax authorities have the right to perform periodic reviews of tax returns filed by Arca and of different criteria in the interpretation of legal dispositions of the Company of which possible tax differences may arise, such as reviews made in 2005 and 2004, which originated payments of Ps.109,996 and Ps.55,160, respectively, corresponding to corrections of prior years.

NOTE 18 – FINANCIAL INSTRUMENTS

Arca maintains two interest rate hedging contracts as a risk protection measurement as follows:

i. On November 17, 2003 a contract with ING Bank (México), S. A. (ING). In accordance with the contract, ING agrees 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, agrees to pay ING, over the same amount, a fixed interest rate of 9.10%. The contract expires on October 24, 2008, and interest will be calculated as from October 29, 2004.

   At December 31, 2005, interests were accrued in the amount of Ps.5,752.(Ps. 302 in 2004) .

ii. On January 9, 2004 a contract with BAMSA. In accordance with the contract, BAMSA agrees 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, agrees to pay BAMSA interest, over the same amount, at a fixed rate of 8.81%. The contract expires on October 24, 2008, and interest will be calculated as from April 30, 2004.

   At December 31, 2005, interest receivable is accrued in the amount of Ps7,222 (interest payable for Ps3,270 in 2004).

   In the entry corresponding to financial income (net) the comprehensive financing income includes Ps12,974 relative to interest receivable (Ps2,968 payable in 2004) corresponding to these contracts.

Following is the market value of the aforementioned hedging contracts at the date of issuance of these financial statements.:

	Market value
BAMSA	Ps 314
ING	3,679

NOTE 19 – 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, 2005, Arca has an account receivable derived from the financial lease for US$26,250 (US$31,500 in 2004), which in accordance with the contract, bears interest at an annual 7.2% rate maturing in the following years:

2006	US$ 5,250
2007	5,250
2008 to 2010	15,750
	US$ 26,250

Interests recorded amounted to a total of US$4,853 and US$6,870 at December 31, 2005 and 2004, respectively. These interests are recorded as deferred credit and amortized as accrued. For purposes of the presentation of these financial statements, it is shown net of accounts receivable mentioned above amounting to Ps.273,227 and Ps.338,956 at December 31, 2005 and 2004, respectively (see Note 4).

NOTE 20 – SUBSEQUENT EVENT

On February 3, 2006, Arca announced an agreement with the majority shareholders of Grupo Herdez, S.A. de C.V. ("Herdez") that establishes the framework whereby Arca will acquire a significant stake of Herdez's total shares outstanding.

Depending on the final results of the tender offer, the investment required by Arca will be between Ps.2,200 million and Ps.3,200 million.

Francisco Garza E.
Chief Executive Officer

Adrian Wong B.
Chief Financial Officer

Glossary

ARCA: Embotelladoras Arca, S.A. 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.

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.

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.

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.

EMBOTELLADORAS ARCA

“Always with you to cheer up your life”

ARCA 2005 ANNUAL REPORT

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COTIZA EN BOLSA MEXICANA DE VALORES

ARCA

ECOCE

ESR EMPRESA SOCIALMENTE RESPONSABLE

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.

Design: Herring Design   Photography: Julio Ramirez, Javier Orozco   Printing: EarthColor, Houston

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