On the move

EMBOTELLADORAS ARCA

2004 Annual Report

Contents

As we look at Arca today, we see that the initiatives implemented over the past years have produced tangible results. We are a more dynamic and flexible organization, continuously adapting to market needs and successfully operating in a highly competitive environment.

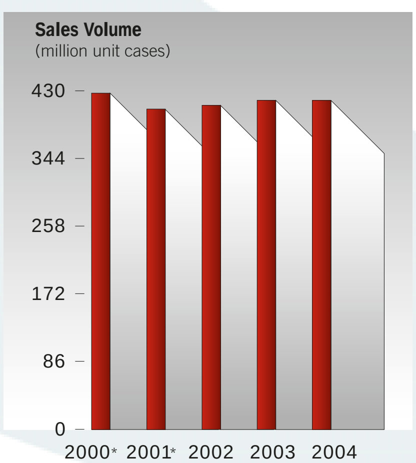
the move

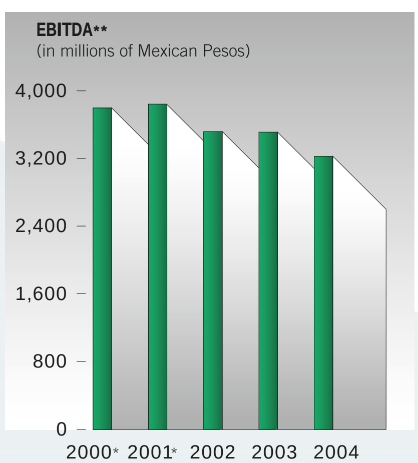
Financial Highlights

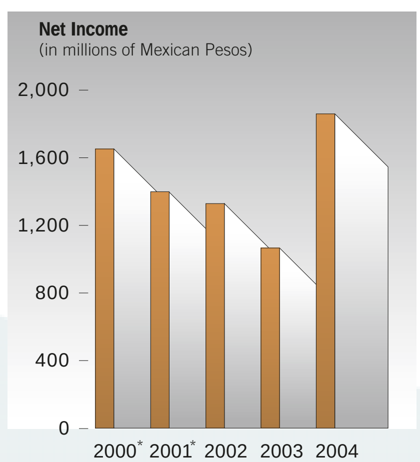
(in millions of Mexican Pesos in purchasing power as of December 31, 2004 except per share data)

	2004	2003	% Change
Sales Volume (Million Unit Cases)[1]	**416.9**	416.9	0.0%
Net Sales	**13,867**	14,661	-5.4%
Operating Profit[2]	**2,448**	2,666	-8.2%
EBITDA[3]	**3,210**	3,496	-8.2%
Net Income	**1,849**	1,057	74.9%
Total Assets	**13,503**	13,209	2.2%
Cash on Hand	**1,784**	1,150	55.2%
Total Debt	**1,556**	1,578	-1.4%
Stockholders' Equity	**9,544**	9,111	4.8%
Operating Cash Flow[4]	**2,362**	1,976	19.6%
Dividends Paid	**1,230**	1,116	10.2%
Capital Expenditures	**821**	579	41.8%
Per Share Data[5]			
Net Income	**2.29**	1.31	
Book Value	**11.84**	11.31	
Dividends Paid	**1.53**	1.39	

1 Includes soft drinks and purified water in personal formats.
2 Excludes non-recurring expenses for a total of Ps. 312 in 2003, and Ps. 146 million in 2004.
3 Operating income plus depreciation and amortization of goodwill. Excludes non-recurring expenses mentioned in note 2.
4 After working capital needs.
5 Based on 806,019,659 shares outstanding.







* Pro-forma figures (not audited), for comparative purposes only. Calculated as if Embotelladoras Argos, S.A. and Empresas El Carmen, S.A. de C.V. had formed part of Embotelladoras Arca, S.A. de C.V. since January 1, 2000 and 2001.

** Excludes non-recurring expenses.

Francisco Garza Egloff, Chief Executive Officer (left) and Miguel A. Fernandez Iturriza, Chairman of the Board

To our Fellow Shareholders:

2004 was a challenging year for the soft drink industry in Mexico and particularly for our company. We are pleased to report that the strategies implemented to adapt to the new business reality produced positive results. We maintained our competitiveness and reached an operating margin, before non-recurring expenses, of 17.7%, outperforming the industry average.

Our initiatives, carried out with a long-term vision, made us a more dynamic organization. We are now in a position to anticipate and respond to a rapidly changing environment, capitalize on new market opportunities and enhance Arca's leadership position.

With a working culture focused on fulfilling the needs of our customers and consumers, we continue to offer new and improved product and brand options at competitive prices, combined with world-class service. Our goal is to exceed the expectations of the more than fifteen million consumers whom we serve every day, free of interruptions.

Business environment, strategies and results

During 2004, the Mexican economy presented mixed signals: while the gross domestic product grew 4.4%, unemployment remained relatively high. Additionally, adverse weather conditions and an aggressive competitive landscape, mainly in northern Mexico, limited the growth of the soft drink industry.

Despite these challenges, Arca remained the market leader by selling 417 million unit cases, in-line with the previous year. This figure reflects a series of actions executed throughout the year, such as the introduction of product and packaging innovations, new promotions, advertising, and customer loyalty programs, the installation of additional refrigerators and vending machines, and superior service. However, due to selective price adjustments, net sales declined 5.4% to 13,867 million pesos.

Together with The Coca-Cola Company, we have strengthened the leadership of our brands and their future development.

Cost-reduction initiatives yielded savings of more than 500 million pesos during the year, offsetting the gross margin contraction resulting from greater competition and higher raw material prices, including PET resin, sugar, plastic caps and metal crowns, among others.

Another positive step was the optimization of assets, which reduced our investment in working capital by approximately 315 million pesos and generated significant cash flow.

"We have come a long way, but we will continue working towards becoming a better company, by staying close to our consumers, offering top quality products and world-class service."

— Miguel A. Fernandez Iturriza

The strong performance of the flavors segment was mainly driven by a broader product offering derived from the sale of the *Joya* brand to The Coca-Cola Company and the subsequent complementing of national brand products, such as *Manzana Lift* and *Fresca*.

This transaction and the signing of a new 10-year franchise contract, renewable for an additional 10-year period, indicate the solid long-term relationship between The Coca-Cola Company and Arca. This is based on mutual trust and confidence that we will continue expanding and working together in developing the beverage market.

The sale of *Joya* and several non-strategic real estate properties, generated resources of more than 600 million pesos in 2004, partially contributing to the 75% increase in net income to 1,849 million pesos, or 2.29 pesos per share; operating cash flow grew 19.6% year-over-year to 2,362 million pesos.

Based on our solid financial position, we made two dividend payments in 2004 totaling 1.2 billion pesos, or 1.53 pesos per share, making Arca one of the highest yielding companies listed on the Mexican Stock Exchange for the second consecutive year.

In order to leverage our operational effectiveness, the Company finalized the set up of the SAP system basic platform in 2004, and began the development of additional modules that will become fully operational in 2005. This implementation provides a uniform base for handling real-time information, a key factor in the decision making process and in the effective integration of the different areas of the organization.

None of these projects would have been successful without the teamwork of the Arca family. Particularly, Arca's Total Quality and Improvement System, the CIMA Project, fostered Participative Management Teams that motivated our people to further develop our continuous improvement programs and customer service efforts.

The Future

In 2005 we will reinforce our strategy of protecting the brand equity of our product portfolio, while tapping growth opportunities in the market. To achieve this, we are offering different alternatives by launching additional flavors and presentations, strengthening the mineral water, purified water, tea and sports drinks categories. Furthermore, Arca will target growth in the U.S. Hispanic market by increasing exports of *Topo Chico* products. These efforts will be carried out within a framework of controlled costs and expenses.

Additionally, recent improvements in the competitive environment allowed us to raise prices of certain presentations during the first quarter of 2005. Going forward, we will continue adjusting price points in selected segments.

We are currently rolling out our Revenue Growth Management Project for each of our territories. This segmentation strategy will enable us to manage every product, presentation and price depending on the channel, consumption opportunity, location and size of the particular point of sale. We have installed new information systems and state-of-the-art handheld equipment, while offering training and incentives to our sales force to effectively administer a more sophisticated execution.

Through market segmentation, we will satisfy the specific needs of each different consumer, adapt rapidly to any change in preferences or market behavior, and capitalize on the potential of each individual niche. The project will also create measures to evaluate execution performance and promote a constructive dialogue that improves our interaction with customers to the benefit of all parties.

We plan to install 15,000 additional coolers and nearly 4,000 vending machines during 2005, which will permit us to get closer to our consumers and make Arca Mexico's largest vending machine operator. Both actions will also strengthen our competitive advantage from offering value-added products at greater points of sale.

"We will reinforce our strategy of protecting the brand equity of our product portfolio, while tapping growth opportunities in the market. To achieve this, we are offering different alternatives by launching additional flavors and presentations."

— Francisco Garza Egloff

Our supply chain effectiveness, a key element of our segmented execution plan, will be reinforced through further progress in our "Proyecto Evolucion". This project will integrate and adjust all procurement, production and distribution processes to current demand levels, thereby guaranteeing service and product availability at an optimum cost.

We have also defined new areas of opportunity to reduce costs and expenses in order to increase the productivity and profitability of our operations. Our goal is to achieve savings of approximately 300 million pesos on an annualized basis, which will be fully reflected by the end of 2005. This cost-cutting program will be driven by the negotiation of better terms with suppliers, operational efficiencies, the rationalization of distribution centers and the recycling of REF-PET bottles.

Among the most important launches of the year was Topo Chico Sangria Light in the 600 ml NR format.

Furthermore, we will continue optimizing our assets by maintaining discipline in the use of working capital, divesting non-strategic real estate and other assets, and outsourcing certain functions that can be carried out more efficiently by third parties.

A basic part of Arca's business strategy is the overall development of its personnel and the communities in which it operates, with an unwavering respect for the environment. We are proud to announce that during 2005 Arca will institutionalize the Citizenship@Coca-Cola program to integrate our actions in the areas of quality of life in the workplace, community development, environmental protection and corporate ethics into a sustainable framework.

Because of these efforts and the commitment of each member of our team, for the second consecutive year Arca received the Socially Responsible Company Award from the Mexican Center of Philanthropy. This is one of Mexico's most prestigious awards for social responsibility.

We have come a long way, nevertheless we will continue working towards becoming a better company, by staying close to our consumers and offering world-class service. We will seek to always operate with financial flexibility to remain in a position to capitalize on value generating projects and opportunities that may arise in the future.

We would like to thank all our personnel for their commitment and dedication. Their hard work has allowed Embotelladoras Arca to become an agile and flexible company, moving in the right direction.

We would also like to thank the members of the Board of Directors, whose guidance and trust have contributed to the development of key strategies for our organization.

Lastly, we thank our consumers, customers, suppliers and shareholders for playing such a key role in the continuous growth of our great company.

Miguel A. Fernandez Iturriza
Chairman of the Board

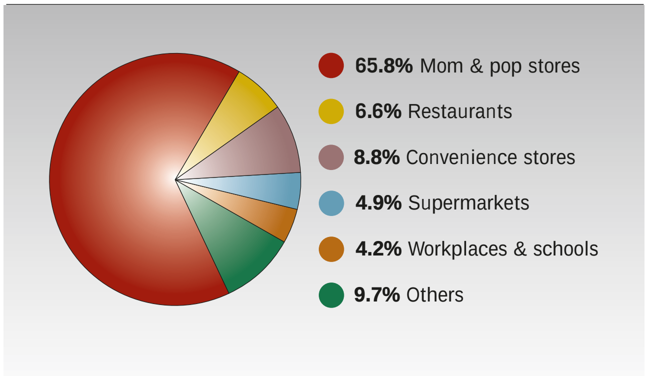
Francisco Garza Egloff
Chief Executive Officer

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 Mexico and 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.

Relevant Market Highlights

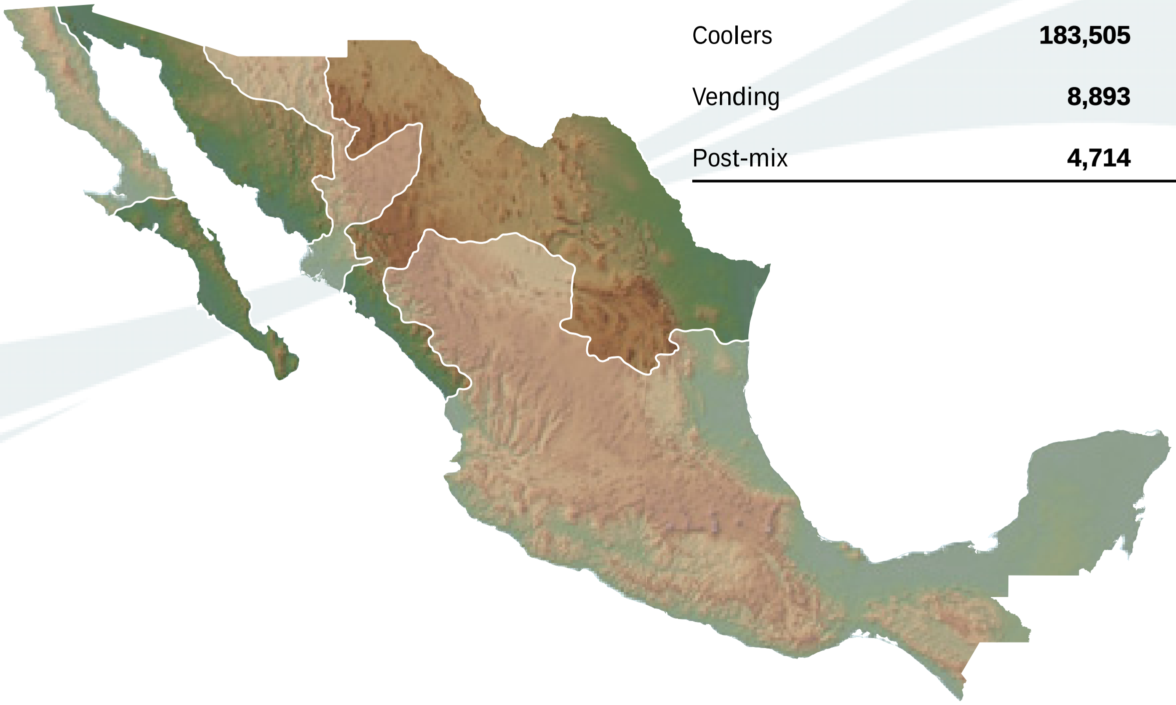
2004 Sales by Distribution Channel



Operational Highlights	2004	2003
Bottling Plants	**14**	14
Distribution Centers	**65**	67
Routes	**1,732**	1,701

Market Information	2004	2003
Population (millions)	**15.4**	14.9
Points of Sale	**204,000**	200,000
Coolers	**183,505**	171,499
Vending	**8,893**	7,614
Post-mix	**4,714**	4,601

Arca's Territories




Coca-Cola
ARCA

Our Mission is to be the leading company in terms of sustainable growth and profitability in the beverage industry in Latin America and the Hispanic market in the United States, while acting in a socially responsible manner with our people and in our community.

We are committed to further strengthening Arca's position as an efficient and profitable company that offers a range of value added products to the consumer. To this end, we have implemented a business strategy centered on consolidating the leadership of our brands by focusing on market preferences, operating in an environment of collaboration and teamwork, and concentrating our initiatives on obtaining results through discipline, integrity, and social responsibility.

Arca's leadership reflects our efforts to satisfy different consumer preferences by offering a range of products and world recognized brands. Our close and ongoing contact with the market enables us to continuously enhance our value proposition through innovation in products, packaging and ways of operating.

Leadership

Aiming to consolidate the leadership of our product and brand portfolio, we increased our coverage and offered new flavor and packaging alternatives through actions that lead the trends in the soft drink market.

Arca offers a range of well-known brands, an optimum price to value ratio, an innovative mix of packaging and brands for every market channel and segment. We are constantly improving our execution and service to over 200,000 points of sale on a daily basis. These characteristics allow us to continue participating successfully in today's competitive environment and further strengthen our market position.

The strategies we have implemented to keep Arca ahead of industry trends include the introduction of new *Coca-Cola* presentations, such as 2.5-liter REF-PET and 1-liter non-returnable formats in Monterrey, and 435 milliliter returnable glass presentation with plastic cap in some border cities of the state of Tamaulipas.

It is important to note that in 2004 Arca posted 5.7% growth in the flavor segment, reflecting specific actions to complement our regional brand offering with other national brands.

During the year, we grew our proprietary brand *Topo Chico* through greater coverage, brand strengthening initiatives, and new flavor and packaging alternatives. Among our tactics were the launch of a mineral water advertising campaign targeting younger consumers and a simultaneous expansion of this product's coverage throughout our territories. Additionally, we introduced *Topo Chico Sangria Light* in a 600 ml. non-returnable presentation, which was well accepted by the market.

Topo Chico exports to the United States sustained their double-digit growth in 2004, motivating us to expand the presence of these products in this important market.

The single-serve water segment posted a significant 14.7% increase driven by special promotions and new ways of exhibiting this product at the point of sale.

During 2004, we supported the sales of other non-carbonated beverages with the launch of *Nestea* with 10% less sugar, in addition to *Nestea Light*, and new *Powerade* flavors, all of which were widely accepted by consumers.

Today's consumers are more selective and demand a wider range of products, therefore Arca has rapidly adapted its portfolio of brands and presentations to the changing needs of its various consumer clusters, while perfecting execution and service at the point of sale.

Focus

The increase of vending machines in places that promote new consumption opportunities enabled us to get closer to our consumers and respond faster to the current market dynamics.

We are in the process of standardizing Arca's Revenue Growth Management project in all our territories.

This segmentation program, enriched by an improved relationship with our customers, will ensure that our product portfolio is customized to the changing needs and preferences of the market, at competitive prices, within the correct channels. It also takes into account the socioeconomic and competitive conditions at each individual point of sale, as well as its size and the different occasions that it serves.

Establishing a valuable dialogue with our customers will give our sales initiatives greater precision and control, thereby allowing us to respond faster and more effectively to this evolving market. This approach differentiates Arca from its competitors and contributes to our ability to identify new opportunities that increase profitability.

By offering innovative packaging and presentations, we will maintain our leadership in the cola segment. At the same time we expect to grow in flavors, purified water and mineral water segments, while looking for areas of opportunity in other non-carbonated categories.

For the convenience of our consumers, we plan to install nearly 4,000 vending machines during 2005. This profitable channel has significant growth potential and represents an additional factor to differentiate Arca from other players in the beverage industry.

Moving forward, we will continue to focus on the institutional channel — where our sales grew roughly 16% in 2004 and gained market share — by offering multipack presentations and superior service performed by our on-site merchandising team.

Improved execution in the market will ensure that we are moving in the right direction, based on the new competitive environment and in line with our customers' and consumers' expectations.

Arca has implemented a series of team-building initiatives designed to promote cooperation among personnel, an ongoing dialogue with customers, a spirit of collaboration and the exchange of ideas with other peers and players in the value chain.

Teamwork

The strength of the organization is based on the ability of our personnel to work together, with clients, to perfect our day-to-day attention and service.

As part of Arca's Total Quality and Improvement System, known as the CIMA Project, we formed Participative Management Teams to implement different operating strategies, which improved efficiency and service at all of our work centers within a framework of shared responsibility and motivation.

The relationship of trust and long-term vision shared with The Coca-Cola Company was solidified in 2004 via the signing of a new franchise contract for 10 years, renewable for another decade, and the granting of a new territory in the state of Chihuahua. These events will strengthen our market position in today's increasingly competitive environment.

During 2004, we operated two loyalty programs to fortify Arca's strategy of teamwork and service with customers and consumers: the "Reliable Friend" and "Distinguished Partner", which reached almost 20% of our points of sale. Moving forward, our close relationship with customers will be reinforced through constant dialogue to further improve execution and service.

To increase operational efficiency and support our cost reduction initiatives, we have built a relationship of cooperation with suppliers of key raw materials such as PET bottles, plastic caps and metal crowns, among others.

In 2005, we will encourage internal teamwork and external alliances that will enhance productivity, innovation, quality and the value of our products in order to compete more effectively in today's marketplace.

Results

As an integral part of our value creation initiatives we have made a concerted effort to ensure that all areas of our organization are as lean as possible, with a clear definition of roles, responsibilities and objectives for every position. These efforts have produced tangible results in reducing costs and optimizing assets.

Maintaining the right allocation of resources enabled us to be more focused on meeting the needs of consumers more rapidly.

Some of the projects implemented in 2004 included the opening of two sugar clarification plants, the rationalization of distribution centers, and the ceasing of operations of Sello Tapa, our plastic and metal caps production facility. These actions, among others, partially mitigated the recent price increases of key raw materials.

As a result of our company-wide program for controlling costs and expenses, we raised our estimated savings from 320 million pesos to 500 million pesos at the start of 2004 and met this goal by the end of the year. We also announced a second phase of cost reduction initiatives for an annualized amount of 300 million pesos, which should be completed by the end of 2005.

With this second phase, we will have accumulated total savings of 800 million pesos since the program was initiated in 2003. These results are a clear indication of our management's commitment to maintain an efficient structure that is results-oriented and evaluated based on profitability indicators that are continuously monitored.

Our new organizational structure is giving us agility in the decision-making process, which is facilitating the sharing of best practices among our six regions and better control of our operating expenses. This resulted in 11.1% reduction of selling expenses and a 15.1% decline in administrative expenses, excluding non-recurring items in both cases.

We will continue to seek new opportunities for reducing costs by outsourcing certain functions and services, such as primary transportation and information systems. We will also relocate production lines, rationalize distribution centers, recycle REF-PET bottles and divest non-strategic assets, among others. This will enable us to maintain our leadership position, profitability and flexibility in the market.

Maintaining our leadership position in the soft drink market and ensuring long-term operating efficiency demands that we be open to change and continuously innovate our processes. We must also operate with state-of-the-art information systems and technology to better integrate our business and ensure real-time information to improve the coordination between Arca's different areas.

Discipline

We continue with our corporate strategy of integrating all the business processes into a unified platform that will guarantee a more efficient operation in continuous development.

For Arca's business strategies to succeed in every area of the organization, we continued our efforts to ensure that state-of-the-art information and control systems support the decision-making process.

During the first quarter, we concluded the implementation of the SAP system in all our territories. This has enabled us to integrate different corporate functions, including accounting, finance, treasury and procurement. We have recently added new modules, including the human resources and supply chain, increasing productivity of our operations and the efficiency of customer service.

Progress was made in the supply chain through our "Proyecto Evolucion", improving the coordination of internal business processes, such as demand planning, procurement, manufacturing, logistics and distribution, with superior service and product availability, while reducing costs and inventories.

Our capital expenditure budget for 2005 amounts to approximately 80 million dollars. It will be allocated largely to the regular maintenance and replacement of assets, additional non-returnable production capacity, installation of new refrigerators and vending machines, development of systems and handheld equipment, and the consolidation of distribution centers.

Social Responsibility

At Embotelladoras Arca, we share a commitment to rationalize the use of natural resources, care for the environment and operate with a vision of social responsibility. Our policies and initiatives in these areas represent a fundamental part of our business, and are focused on benefiting the communities in which we operate, while sustaining long-term profitability.

Each day our personnel participates actively in developing the communities in which we operate. Most notable is our work in setting up shelters and schools in the Sierra Tarahumara and being recognized with the Socially Responsible Company award.

In 2005, we will continue with our commitment to social responsibility by institutionalizing the basic principles of the Citizenship@Coca-Cola program.

This program will be implemented at all our work centers and will allow us to structure our social responsibility activities under four basic areas: quality of life in the workplace, corporate ethics, community development and environmental protection.

This project has already produced tangible results in the area of ecological performance, where we allocated almost 10 million pesos to support PET bottle recycling programs and more than 31 million pesos for the construction and operation of water treatment plants.

As an indication of our social commitment, we donated more than 20 million pesos for community development efforts. It is also important to highlight the contributions, in conjunction with the Coca-Cola Foundation, made toward programs such as the building of shelters and schools in Mexico's neediest regions.

In recognition of these efforts, Arca received the 2005 Socially Responsible Company Award from the Mexican Center for Philanthropy, CEMEFI, for the second consecutive year. This acknowledged our success in consolidating these initiatives into an institutional program with long-term sustainability, and honor the daily efforts of our personnel in reinforcing Arca's commitment to society.

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

Senior Management

Francisco Garza Egloff (50) 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 (52) 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 (53) 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 (39) 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 (51) 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 (58) 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 (54) 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

Miguel Antonio Fernandez Iturriza (61)[1,P] Chairman of the Board of Directors of Arca since 2001. Member of the Board of Directors of Sistema Axis and Fevisa. Chief Executive Officer of Argos from 1982 to 1999 and Chairman of the Board from 1997 to 2001. Former Chairman of the Board of Directors of Sistema Axis.

Javier L. Barragan Villarreal, Honorary Chairman (80) Member of the Consulting Board of BBVA Bancomer and Movimiento de Promocion Rural. Former Member of the Board of FEMSA and Cruz Roja de Monterrey.

Emilio Antonio Arizpe y de la Maza (87)[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 and Inversiones del Norte. 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.

Manuel L. Barragan Morales (54)[1,C] Vice Chairman of the Board of Directors of Arca since 2004 and Board Member since 2001. Chairman of the Board of Index. Former Board Member of Procor, Banco Regional de Monterrey and Papas y Fritos Monterrey.

Luis Lauro Gonzalez Barragan (51)[1,P] Vice Chairman of the Board of Directors of Arca since 2001. Member of the Board of Index, Berel, and Member of the Board of Universidad de Monterrey. Administrative Director and owner of San Nicolas Automotriz. Former Board Member of Procor and CBI Seguros.

Guillermo Alvelais Fernandez (59)[1,P] Member of the Board of Directors of Arca since 2001. Former Member of the Board of Directors of Sistema Axis, Argos, Fundacion Rosario Campos de Fernandez and alternate Member of the Board of Grupo Financiero Sofimex.

Luis Arizpe Jimenez (43)[1,C] Member of the Board of Directors of Arca since 2003. Member of the Board of CANACINTRA Saltillo, Desarrollo Rural de Saltillo and Nuevo Concepto en Medicina y Materiales Castelar. Former Member of the Board of Grupo Arma, Amalia Collections and S.I.M.A.S. Saltillo as well as former President and Vicepresident of CANACINTRA Saltillo. Partner of AKANOS & MSM Consultants, Vice President and Treasurer of Cruz Roja Mexicana in Saltillo.

Jose Joaquin Arizpe y de la Maza (84)[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.

Eduardo J. Barragan Villarreal (69)[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.

***Executive Committee** (left to right) Luis Lauro Gonzalez Barragan, Miguel A. Fernandez Iturriza, Emilio A. Arizpe y de la Maza and Manuel L. Barragan Morales*

Fernando Barragan Villarreal (74)[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.

Alfonso J. Barragan Treviño (47)[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.

Alejandro M. Elizondo Barragan (51)[1,P] Member of the Board of Directors of Arca since 2004. He is the Chief Executive Officer of Hylsamex. Mr. Elizondo worked in Alfa's corporate and steel divisions for over 29 years. President of CANACERO (Mexico's steel industry chamber) from 1999 to 2001 and Vice President of the American Iron and Steel Institute from 1997 to 2001. Currently a board member of Banco Regional de Monterrey.

Rafael Garza-Castillon Vallina (48)[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 (48)[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.

Jorge Humberto Santos Reyna (30)[1,P] Member of the Board of Directors of Arca since 2001. Chief Executive Officer of San Barr y Compañia and Productos Agropecuarios de Nuevo Leon. 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 CAINTRA and Empresas San Barr. Alternate Member of the Board of Procor and Papas y Fritos Monterrey.

Marcela Villareal Fernandez (57)[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.

Juan B. Maldonado Quiroga (48)[2,A] Member of the Board of Directors of Arca since 2001. Executive President of Copamex. Chairman of the Board of Fundacion de Beneficencia Maldonado Quiroga, Auto Club Valle and Colegio Jorge Maldonado. Member of the Board of Banco Nacional de Mexico, Fomento Moral y Educativo, Cruz Roja Mexicana, Coparmex de Nuevo Leon and Member of the Board of Trustees of Instituto Tecnologico y de Estudios Superiores de Monterrey.

Ernesto Lopez de Nigris (44)[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 (72)[2,A] Member of the Board of Directors of Arca since 2001 and Chairman of the Audit Committee since 2002. Member of the Audit Committee of Grupo Financiero Banorte. Regulatory Controller of Solida Banorte Generali. President of Promocapital, and Vice Chairman of the Board of Trustees of Universidad Mexicana del Noreste. Former Chairman of the Board of Far-Ben, Member of the Board of State National Bank of El Paso and several Mexican banks, as well as Member of the Board of Union Carbide Mexicana, Petrocel, John Deere de Mexico, among others.

Jose Otaduy Aranzadi (75)[2,P] Member of the Board of Directors of Arca since 2001. Director of the Masters Program in International Management at Instituto Tecnologico Autonomo de Mexico and specialist in statistical sampling for the Union Panamericana de la Organizacion de Estados Americanos in Washington, D.C. Former Chief Executive Officer of Coca-Cola de Mexico and Member of the Board of Grupo Quan.

Ulrich Fiehn Buckenhofer (59)[2,A] Member of the Board of Directors of Arca since 2002. Member of the Board of Acciones y Valores de Mexico and Banco Nacional de Mexico. Former Chairman of the Board of Grupo Proagro. Member of the Board of Grupo Financiero Banamex Accival, Bolsa Mexicana de Valores, Indeval, Asociacion Mexicana de Intermediarios Bursatiles, Seguros Banamex Aegon, Grupo Industrial Durango, John Deere, Banco Mercantil del Norte and Internacional de Ceramica. Former 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.

Arturo Gutierrez Hernandez (39) 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 (53) 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

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

Financial Review Contents

Management's Discussion and Analysis of Financial Results

SALES

Net sales for 2004 fell 5.4% in real terms to Ps. 13,867.0 million, compared to Ps. 14,661.4 million in 2003. The decline largely reflects a reduction in the average price per unit case in real terms. Total sales volume remained essentially unchanged year-over-year at 416.9 MUC.

COST OF SALES

Despite an increase in the price of the Company's main inputs, including PET resin and sugar, the 2004 cost of sales of Ps. 7,032.2 million was effectively the same as that of the previous year. Gross margin for the year was 49.3%, 2.8 percentage points below 2003. This decline mainly reflects the significant increase in raw materials costs referred to above. Additionally, the percentage of non-returnable products in the sales mix rose considerably from 44.5% in 2003 to 52.7% in 2004. This figure still compares favorably with the national average of approximately 62% (excluding Arca).

OPERATING EXPENSES

As a result of our cost reduction initiatives during 2004, selling expenses (excluding non-recurring expenses) decreased 11.1% year-over-year, from Ps. 3,737.6 million in 2003 to Ps. 3,324.0 million in 2004, while administrative expenses fell 13.5% from Ps. 1,229.2 million in 2003 to Ps. 1,063.1 million in 2004.

OPERATING INCOME AND EBITDA

Operating income, excluding non-recurring expenses, declined 8.2%, from Ps. 2,666.4 million in 2003 to Ps. 2,447.7 million in 2004. Operating margin decreased 0.5 percentage points year-over-year from 18.2% to 17.7%.

Operating cash flow (EBITDA excluding non-recurring expenses) fell 8.2% or Ps. 286.0 million, from Ps. 3,495.9 million in 2003 to Ps. 3,209.9 million in 2004.

NON-RECURRING EXPENSES

Non-recurring expenses – largely for severance payments made to personnel – fell 53.1%, from Ps. 312.0 million in 2003 to Ps. 146.4 million in 2004, reflecting initiatives to capitalize on synergies and reduce costs.

INTEGRAL COST OF FINANCING

In 2004, the integral cost of financing was Ps. 44.6 million, compared to a cost of Ps. 168.2 million in 2003. The difference mainly reflects a 49.9% reduction in interest expense, which fell from Ps. 312.1 million in 2003 to Ps. 156.4 million in 2004 as a result of the refinancing of debt at very competitive rates at the end of 2003. The refinancing involved the issue of Ps. 1,500 million in peso bonds (*certificados bursátiles*) in two tranches: the first for Ps. 1,000 million at a variable interest rate of Mexican 182-day Cetes plus 88 basis points with a five-year maturity and the second for Ps. 500 million at a fixed rate of 8.80% over 7 years. For the 1,000-million-peso issue, the variable interest rate was converted to a fixed rate through two swaps: one of Ps. 500 million at a rate of 8.81% and one of Ps. 500 million at a rate of 9.10%.

OTHER INCOME (EXPENSES)

In 2004, the Company posted Ps. 386.4 million in other income, which compares favorably with the other expenses of Ps. 192.4 million recorded in 2003, and reflects the sale of the *Joya* brand to *The Coca-Cola Company*, as announced on September 23, 2004.

PROVISION FOR INCOME TAXES AND EMPLOYEES' PROFIT SHARING

The provision for income taxes and employees' profit sharing for the year was Ps. 799.9 million, 15.1% or Ps. 142.0 million below the Ps. 941.9 million of the previous year. In 2004, Ps. 621.5 million corresponded to income taxes and Ps. 178.4 million to employees' profit sharing. During the fourth quarter of 2004, the balance of this provision was a credit of Ps. 148.9 million. This credit largely reflects the change in rate used to calculate deferred taxes and the accelerated depreciation of certain fixed assets in accordance with fiscal law. The effective tax rates for 2004 and 2003 were 30.2% and 47.1% respectively.

NET INCOME

Net income for the year totaled Ps. 1,848.7 million, or Ps. 2.29 per share, 74.9%, above the Ps. 1,057.3 million, or Ps. 1.31 per share, posted in 2003.

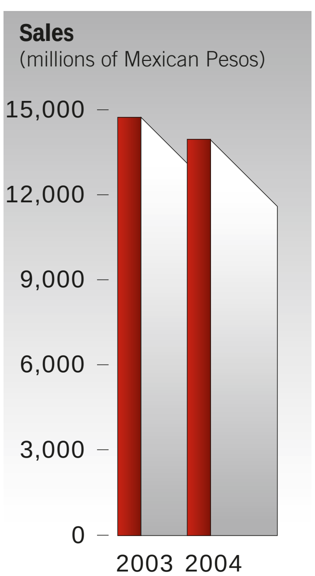
CASH ON HAND AND FREE CASH FLOW

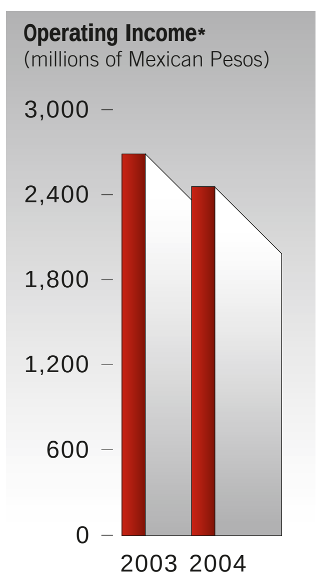
The net balance of cash as of December 31, 2004 was Ps. 228.2 million, compared to a net debt of Ps. 427.6 million at year-end 2003. The balance of cash as of December 31, 2004 was Ps. 1,784.2 million, compared to Ps. 1,150.2 at year-end 2003. Resources generated by operating activities grew 19.6% in 2004, largely because of a reduction in working capital, reflecting tighter discipline and improved purchasing terms from the Company's main suppliers.

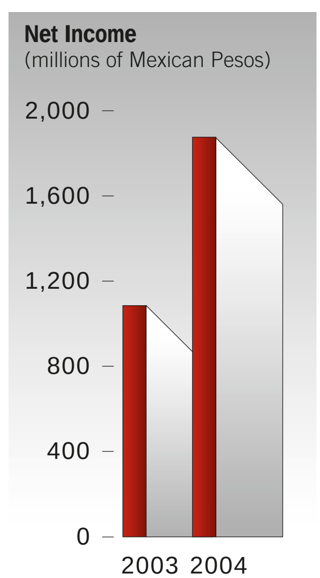
The main uses of cash were: the payment of dividends amounting to Ps. 1,229.8 million, a Ps. 21.8 million reduction in debt, and capital expenditures of Ps. 415.6 million.

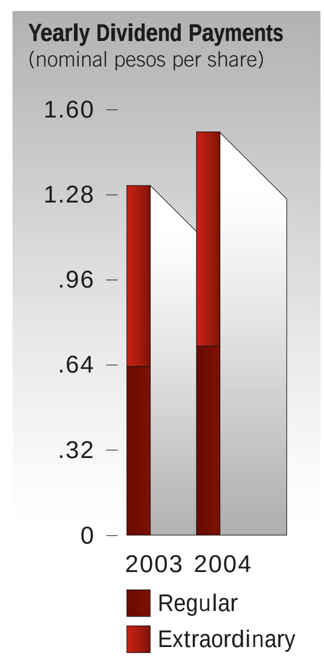
CAPITAL EXPENDITURES

Net investment in property, plant and equipment totaled Ps. 820.8 million in 2004, mainly for the renewal of transportation equipment, machinery and other equipment; investment in NR bottling lines in Piedras Negras and Matamoros; and investments required for the new franchise in Meoqui, Chihuahua.









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

Consolidated Balance Sheet[1]

(In millions of Mexican Pesos in purchasing power as of December 31, 2004)

December 31,	**2004**	2003	2002	2001	2000
Assets					
Current assets:					
Cash and cash equivalents	**1,784**	1,150	1,512	1,123	1,707
Accounts receivable	**445**	454	407	404	434
Other accounts receivable	**221**	265	356	179	164
Inventories	**935**	1,112	1,246	1,331	1,389
Prepaid expenses	**48**	22	44	13	7
Total current assets	**3,433**	3,003	3,565	3,049	3,702
Investments in shares	**108**	103	89	82	63
Restricted fixed assets	**–**	–	–	–	532
Property, plant and equipment, net	**7,505**	7,467	8,265	8,603	8,295
Goodwill, net	**2,018**	2,151	2,283	2,418	1,225
Other accounts receivable – long-term	**289**	364	–	–	–
Other assets	**151**	123	67	74	90
Total assets	**13,503**	13,209	14,269	14,227	13,908
Liabilities and Stockholders' Equity					
Current liabilities:					
Current portion of long-term debt	**12**	–	215	181	135
Suppliers	**583**	403	449	419	504
Other accounts payable and accrued expenses	**602**	619	748	1,022	866
Total current liabilities	**1,196**	1,022	1,412	1,622	1,504
Long term debt	**1,544**	1,578	2,010	2,239	625
Pension plans and seniority premiums	**139**	156	188	205	137
Deferred income tax and other long-term liabilities	**1,077**	1,343	1,443	1,589	1,695
Excess of book value on the cost of shares	**3**	–	–	–	–
Total liabilities	**3,959**	4,098	5,053	5,656	3,960
Stockholders' equity:					
Capital stock	**4,212**	4,212	4,212	4,212	2,006
Reserve for repurchase of shares	**–**	–	–	–	135
Additional paid in capital	**604**	601	588	624	2,175
Retained earnings	**6,729**	6,226	6,292	5,579	7,026
Deficit from restatement	**(2,001)**	(1,928)	(1,875)	(1,854)	(1,394)
Total stockholders' equity (majority interest)	**9,544**	9,111	9,217	8,560	9,948
Minority interest	**–**	–	–	11	–
Total liabilities and stockholders' equity	**13,503**	13,209	14,269	14,227	13,908

1 Pro-forma figures (not audited), for comparative purposes only. Calculated as if Embotelladoras Argos, S.A. and Empresas El Carmen, S.A. de C.V. had formed part of Embotelladoras Arca, S.A. de C.V. since January 1, 2000 and 2001.

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

Consolidated Income Statement[1, 2]

(In millions of Mexican Pesos in purchasing power as of December 31, 2004)

December 31,	**2004**	2003	2002	2001	2000
Sales volume (MUC)	**416.9**	416.9	410.6	406.3	426.0
Net sales	**13,867**	14,661	14,384	15,145	14,839
Cost of sales	**(7,032)**	(7,028)	(6,561)	(7,030)	(7,342)
Gross profit	**6,835**	7,633	7,823	8,115	7,497
Selling expenses	**(3,324)**	(3,737)	(3,873)	(3,795)	(3,318)
Administrative expenses	**(1,063)**	(1,229)	(1,269)	(1,274)	(1,153)
Operating income (excludes non-recurring expenses)	**2,448**	2,667	2,681	3,046	3,026
Non-recurring expenses[2]	**(146)**	(312)	(151)	(64)	–
	2,301	2,354	2,530	2,982	3,026
Comprehensive financing cost:					
Interest income (expense), net	**(28)**	(202)	(125)	6	(134)
Exchange gain (loss), net	**(13)**	9	(127)	(25)	4
Monetary position gain (loss)	**(3)**	25	98	4	8
	(45)	(168)	(155)	(15)	(121)
	2,257	2,186	2,375	2,967	2,905
Other income (expense)	**387**	(192)	(46)	(137)	(24)
Equity earnings of affiliates and minority interest	**5**	5	3	(17)	8
Income before the following provisions:	**2,649**	1,999	2,332	2,814	2,890
Provisions for:					
Income asset tax	**(622)**	(724)	(740)	(1,071)	(940)
Employees' profit sharing	**(178)**	(218)	(271)	(351)	(318)
Total provisions	**(800)**	(942)	(1,012)	(1,422)	(1,258)
Consolidated net income	**1,849**	1,057	1,320	1,392	1,631
Number of shares	**806,020**	806,020	806,020	806,020	806,020
Depreciation and amortization	**632**	699	706	712	682
Goodwill Amortization	**130**	131	135	81	70
EBITDA (excludes non-recurring expenses)	**3,210**	3,496	3,523	3,838	3,778
CAPEX	**821**	579	536	625	769

1 Pro-forma figures (not audited), for comparative purposes only. Calculated as if Embotelladoras Argos, S.A. and Empresas El Carmen, S.A. de C.V. had formed part of Embotelladoras Arca, S.A. de C.V. since January 1, 2000 and 2001.
2 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 (Expenses)" line (see Note 3.l "Long-lived Assets" in the Audited Financial Statements).

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

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

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

Monterrey, N. L., Mexico, March 22, 2005

We have audited the consolidated balance sheets of Embotelladoras Arca, S. A. de C. V. and subsidiaries as of December 31, 2004 and 2003, 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 have been prepared in accordance with generally accepted accounting principles and 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. 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, 2004 and 2003, 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 in Mexico.

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, 2004 purchasing power)

December 31,	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	**Ps 1,784,247**	Ps 1,150,214
Trade accounts receivable (less allowance for doubtful accounts of Ps 33,876 in 2004 and Ps 45,763 in 2003)	**444,588**	454,118
Other accounts receivable (Nota 4)	**220,983**	264,691
Inventories (Nota 5)	**935,061**	1,111,652
Prepaid expenses	**47,827**	22,276
Total current assets	**3,432,706**	3,002,951
Other accounts receivable long-term (Note 4)	**288,682**	363,559
Investment in shares (Note 6)	**107,555**	102,549
Property, plant and equipment, net (Note 7)	**7,504,643**	7,467,106
Goodwill, net (Note 8)	**2,018,219**	2,150,625
Other assets	**151,217**	122,535
Total assets	**Ps 13,503,022**	Ps 13,209,325
Liabilities and Stockholders' Equity		
Current liabilities:		
Suppliers	**Ps 582,663**	Ps 402,717
Current portion of long-term debt (Note 9)	**11,667**	–
Sundry creditors and accrued expenses	**352,224**	305,635
Employees' profit sharing payable (Note 14)	**189,807**	218,321
Income tax payable (Nota 14)	**59,776**	95,312
Total current liabilites:	**1,196,137**	1,021,985
Long-term debt (Note 9)	**1,544,389**	1,577,850
Labor obligations (Note 10)	**138,557**	155,528
Deferred income tax liability (Note 14)	**1,077,127**	1,343,015
Excess of book value on the cost of shares (Note 8)	**2,529**	–
Total liabilities	**3,958,739**	4,098,378
Contingencies (Note 11)		
Stockholders' equity (Note 12):		
Contributed capital stock	**4,211,680**	4,211,680
Additional paid in capital	**603,894**	601,115
Retained earnings	**6,725,044**	6,223,350
Cumulative translation adjustment of foreign subsidiary	**5,823**	6,185
Stockholders' reduction from labor obligations	**(1,685)**	(3,534)
Deficit from restatement	**(2,000,609)**	(1,927,982)
Total majority interest	**9,544,147**	9,110,814
Minority interest	**136**	133
Total stockholders' equity	**9,544,283**	9,110,947
Total liabilities and stockholders' equity	**Ps 13,503,022**	Ps 13,209,325

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, 2004 purchasing power)

December 31,	**2004**	2003
Net sales	**Ps 13,866,971**	Ps 14,661,372
Cost of sales	**(7,040,296)**	(7,074,336)
Gross margin	**6,826,675**	7,587,036
Administrative expenses	**(1,123,559)**	(1,413,634)
Selling expenses	**(3,401,797)**	(3,815,443)
	(4,525,356)	(5,229,077)
Operating income	**2,301,319**	2,357,959
Financing cost:		
Interest expense net	**(28,250)**	(202,409)
Exchange (loss) gain, net	**(12,857)**	9,112
(Loss), gain from monetary position	**(3,447)**	25,124
	(44,554)	(168,173)
	2,256,765	2,189,786
Other (expense) income, net (Note 13)	**(66,902)**	32,207
Equity in income of affiliates	**5,500**	5,455
Special item (Note 2)	**453,283**	(228,201)
Income before provisions for income tax and employees' profit sharing	**2,648,646**	1,999,247
Provisions for (Note 14):		
Income tax	**(621,562)**	(723,572)
Employees' profit sharing	**(178,361)**	(218,367)
	(799,923)	(941,939)
Income before minority interest	**1,848,723**	1,057,308
Minority interest	**(23)**	(20)
Net income	**Ps 1,848,700**	Ps 1,057,288
Net income per share	**Ps 2.29**	Ps 1.31
Weighted average shares outstanding (thousands)	**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 Statement of Changes in Stockholders' Equity

(Notes 1, 2 and 3)
(Thousands of Mexican pesos of December 31, 2004 purchasing power)

	Capital stock	Additional paid in capital	Retained earnings
Balance at December 31, 2002	Ps 4,211,680	Ps 588,399	Ps 6,291,732
Changes in 2003:			
Dividends declared			(1,116,324)
Acquisition of own shares		12,716	(9,346)
Minority interest			
Comprehensive income			1,057,288
Balance at December 31, 2003 (Note 12)	4,211,680	601,115	6,223,350
Changes in 2004:			
Dividends declared			**(1,229,805)**
Acquisition of own shares		**2,779**	**(63,819)**
Minority interest			
Tax effects from prior years (Note 7)			**(53,382)**
Comprehensive income			**1,848,700**
Balance at December 31, 2004 (Note 12)	**Ps 4,211,680**	**Ps 603,894**	**Ps 6,725,044**

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 4,834	(Ps 4,722)	(Ps 1,875,421)	Ps 9,216,502	Ps 222	Ps 9,216,724
			(1,116,324)		(1,116,324)
			3,370		3,370
				(89)	(89)
1,351	1,188	(52,561)	1,007,266		1,007,266
6,185	(3,534)	(1,927,982)	9,110,814	133	9,110,947
			(1,229,805)		**(1,229,805)**
			(61,040)		**(61,040)**
				3	**3**
			(53,382)		**(53,382)**
(362)	**1,849**	**(72,627)**	**1,777,560**		**1,777,560**
Ps 5,823	**(Ps 1,685)**	**(Ps 2,000,609)**	**Ps 9,544,147**	**Ps 136**	**Ps 9,544,283**

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, 2004)

December 31,	**2004**	2003
Operating activities		
Consolidated net income	**Ps 1,848,700**	Ps 1,057,288
Items not affecting resources:		
Allowance for doubtful accounts	**2,575**	5,299
Depreciation and amortization	**633,510**	698,629
Gain from sale of the "Joya" brand	**(453,283)**	–
Allowance for disposal of fixed assets	**167,481**	228,201
Labor obligations	**(10,915)**	(14,197)
Equity in income of affiliates	**(5,500)**	(5,455)
Goodwill amortization	**130,412**	130,930
Deferred income tax	**(265,888)**	(100,459)
	2,047,092	2,000,236
Changes in operating assets and liabilities:		
Trade and other accounts receivable	**125,540**	83,082
Inventories	**51,076**	73,792
Prepaid expenses and other assets	**(25,551)**	(8,296)
Suppliers	**179,946**	(46,287)
Other accounts payable and accrued expenses	**(15,854)**	(126,689)
Resources proivded by operating activities	**2,362,249**	1,975,838
Financing activities:		
Long term debt	**(21,794)**	(647,171)
Dividends declared	**(1,229,805)**	(1,116,324)
Acquisition of own shares	**(61,040)**	3,370
Resources used in financing activities	**(1,312,639)**	(1,760,125)
Investing activities:		
Property, plant and equipment, net	**(820,814)**	(578,768)
Accounts receivable by financial lease of machinery and equipment (Note 19)	**–**	(407,518)
Goodwill from the acquisition of Innovadora de Esencias, Aromas y Sabores, S. A. de C. V.	**2,918**	–
Purchase of formulas of the "Joya" brand	**(68,801)**	–
Sale of the "Joya" brand	**522,084**	–
Intangible assets	**(50,602)**	(45,817)
Disposal of fixed assets in financial lease (Note 19)	**–**	453,308
Cumulative translation adjustment of foreign subsidiary	**(362)**	1,351
Resources used in investing activities	**(415,577)**	(577,444)
Increase (decrease) in cash and cash equivalents	**634,033**	(361,731)
Cash and cash equivalents at beginning of year	**1,150,214**	1,511,945
Cash and cash equivalents at end of year	**Ps 1,784,247**	Ps 1,150,214

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, 2004 and 2003

(Thousands of pesos of December 31, 2004 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

As a result of the plans authorized by the Board of Directors on February 25, 2003, relative to the streamlining of facilities and distribution centers, a corporate reorganization and expense reduction, all of which are an integral part of an improvement and efficiency program, Arca underwent the following:

1. A corporate and operational reorganization of its subsidiaries, including the closing of some of its facilities and their transformation into distribution centers using the same facilities. Arca currently has 14 plants and 65 distribution centers (67 in 2003).

   As part of this reorganization, Arca has reduced its legal entities from 39 in 2002 to 24 in 2003 and subsequently 22 in 2004. In this sense, the following companies (all of them S. A. de C. V.) underwent mergers and spin-offs as of the dates established herein:

Merging companies	**Merged companies**
April 1, 2003:	
Embotelladoras del Norte de Coahuila	Compañía Embotelladora de Sabinas (1)
June 1, 2003:	
Arca Corporativo	Corporación Arca Oeste (2)
	Administradora Arca Este (2)
Desarrolladora Arca	Impulsora Pajime (3)
(formerly Inmobiliaria Barvi)	Arrendadora de Chihuahua (3)
	Inmuebles Triunfo del Norte (3)
	Inmobiliaria Infer (3)
	Sichisa (3)
	Inmobiliaria So-Ga (3)
	Arrendamiento y Fomento Industrial del Pacífico (3)
Embotelladora de Chihuahua	Refrigeradora de Parral (1)

November 1, 2003:	
Desarrolladora Arca	Promotora Industrial Juárez (1)
December 1, 2003:	
Embotelladora El Carmen	Embotelladora de Monclova (1)
	Refrescos de Matehuala (1)
Embotelladora Tamaulipeca	Embotelladora de Reynosa (1)
	Embotelladora Internacional (1)

Also, at September 1, 2003, ARCA decided to spin-off Publicidad Eficaz (distributing company) and Publicidad y Servicios Arca (spun-off company) (2).

January 1, 2004:	
Embotelladora Pitic	Compañía Embotelladora de Nueva Obregón (1)
Embotelladora de la Frontera	Distribuidora de Bebidas Arca (1)
	Productora de Hielo del Norte (1)

(1) Manufacturing
(2) Service
(3) Real estate

In a Board Meeting held on January 27, 2004, the directors authorized the acquisition of Innovadora de Esencias, Aromas y Sabores, S. A. de C. V., company that produces the concentrate used in Arca's private labels of flavors. At May 19, 2004 Arca acquired 100% of the shares of such company, consolidating its financial information as of that date.

Following are the consolidated subsidiaries of which Arca owns, directly or indirectly, 100% of their capital stock, except where otherwise indicated. These subsidiaries constitute the surviving entities after the reorganization process:

Manufacturing companies

Bebidas Mundiales, S. A. de C. V. (Bemusa)
Compañía Topo Chico, S. A. de C. V. (Topo Chico)
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. (Cebcs)
Industrial de Plásticos Arma, S. A. de C. V. (Ipasa)
Embotelladora de la Frontera, S. A. de C. V. (Efsa)
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)
Innovadora de Esencias, Aromas y Sabores, S. A. de C. V. (Ideas)

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)
Cuncalín, S. A. de C. V. (99.68%) (Cuncalín)

As part of the operations restructure, Arca incurred in non-recurring expenses during 2004 (mainly severance compensations) in the amount of Ps146,428, due to the 2% reduction of its work force (Ps321,045 and 12% in 2003, respectively).

As a result of the aforementioned plans, as well as in conformity with the dispositions described in Note 3 l., during 2003, Arca recorded charges to income in the amount of Ps228,201 included in the statement of income as a special item.

2. In November 2003, Arca issued, through the Mexican Stock Exchange (Bolsa Mexicana de Valores, S. A. de C. V. or BMV), Stock Certificates in the amount of Ps1,500,000 (thousands of nominal pesos), from a program totaling Ps5,000,000 (thousands of nominal pesos), (see Note 9). With the resources obtained from this issuance, Arca paid, in advance, a syndicated loan amounting US$180,000 maturing in November 2004.

3. Also in November 2003, Arca entered into an eight-year agreement to supply disposable PET bottles with Amcor PET Packaging de México. S. A. de C. V., subsidiary of Amcor PET Packaging USA Inc. (Amcor), worldwide leader in the manufacturing of disposable PET bottles. This agreement included the sale to Amcor, of injection and blowing assets owned by Arca in the amount of US$42,000, payable during the effective term of the agreement. Under this agreement, Amcor agrees to supply disposable bottles to all of Arca's territories and to invest in cast injection equipment and additional blowing equipment to fulfill the needs of Arca's territories, as required. See Note 19.

4. 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.

5. 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.

6. 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.

7. In July 2003, Bemusa and Mexicali separately entered into an agreement with Krones AG Neutraubling, Germany for the importation of a bottling line of non-soft drinks in disposable bottles. These agreements amounted EUR$4,428 and EUR$900, respectively, which would be paid as follows:

   - 15% down payment upon the beginning of the agreement
   - and the rest under guarantee provided by the German Federal Republic, represented by Euler Hermes (Credit Insurance Company).

The remaining 85% to finance amounting EUR$4,529, plus a premium for the operation of EUR$172, were jointly negotiated through the loan described in the following paragraph.

8. In this sense, Arca entered into two loan agreements with Deutsche Bank Aktiengesellschaft as of February 4, 2004 for a period of 5 and 6 years in the amounts of US$5,021 and US$1,016, 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 the aforementioned machinery.

   At December 31, 2004, the balance payable amounted US$4,184 and US$813, respectively. This balance is stated in Mexican pesos within the financial statements amounting Ps56,056. (See Note 9).

9. 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$2,950, 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$246), is shown in the statement of income under other income.

10. 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.

11. 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.

12. 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$55,800, which resulted in an income of Ps453,283 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.

13. 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 Ps50,000 (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).

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, 2004 as follows:

- The financial statements of Mexican holding companies and subsidiaries have been restated to pesos as of December 31, 2004 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, 2004, 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, 2004, as described in e.

The factors derived from NCPI used to restate prior years financial statements were 5.19% and 3.98% for 2004 and 2003 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, 2004.

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, 2004.

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)

Goodwill represents the excess of cost of businesses acquired over the book value of assets acquired and liabilities assumed, and is amortized under the straight-line method over a period of 20 years or less. The excess of book value over the cost of shares of subsidiaries arose from the purchase of Ideas (Note 2 point No. 1) and is amortized by the straight–line method over a five-year period or less. Both, Goodwill and excess of book value over the cost of shares of subsidiaries are restated by applying inflation factors derived from the NCPI. The carrying values of goodwill and excess of book value over the cost of shares are evaluated periodically in relation to the operating performance and future undiscounted cash flows of the underlying businesses. However, this evaluation is not formal, since Arca´s management estimates that its subsidiaries are highly cash generators and they do not expect situations that could change, in a short term, under the present operating conditions.

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

In 2003, Arca's management adopted in advance the standards contained in Statement C–15 "Impairment of Long-Lived Assets and Their Disposal" issued by CPC of the IMPC. This Statement contains general standards covering the identification and recording of losses due to impairment or reduction in value of long-lived assets, tangible or intangible, including goodwill. The estimated effects from the early adoption of these standards, which is effective as from January 1, 2004, resulted in a reduction in the value of fixed assets amounting Ps228,201. This amount is shown as a special item, reducing income for the year.

Arca's management is in the process of making a comprehensive study of all its long-lived assets, to assess the recoverability of the Company's long-lived assets and to adjust it if impairment were to be increased; however, it considers that as a result of the study there will be no material effects additional to the effect recognized in 2003 as a special item in the statement of income.

The Company considers that there are no signs of impairment for 2004; however, it has constituted the provision for the closing of lines detailed in Note 7, which it estimates to be relatively recurrent.

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.

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. Liabilities, provisions, contingent assets and liabilities and commitments (Notes 9 and 11)

Beginning January 1, 2003, Statement C-9 "Liabilities, provisions, contingent assets and liabilities and commitments" issued by the IMCP, went into effect. This Statement establishes general rules for the valuation, presentation and disclosure of liabilities, provisions and contingent assets and liabilities, as well as for the disclosure of commitments entered into by a company as part of its normal operations. The adoption of this Statement did not have a significant effect on the company's financial position.

Long-term debt includes the issuance of certificates, representing the amount to be paid for issued certificates, in accordance with the nominal value of securities, minus the discount or plus the premium for their deposit. Interest is recognized as liabilities as they are accrued. The amount of issuance expenses is amortized in a five-year period.

p. 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.

q. 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.

r. 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.

s. 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 and goodwill amortization.

t. 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.

u. 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.

v. 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.

w. 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, 2004 and 2003, approximately 89% and 88%, 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. 12), 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.

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,	**2004**	2003
Net income	**Ps 1,848,700**	Ps 1,057,288
Cumulative translation adjustment of foreign subsidiary	**(362)**	1,351
Stockholders' equity reduction from labor obligations	**1,849**	1,188
Loss from holding non-monetary assets	**(72,627)**	(52,561)
Comprehensive income, net	**Ps 1,777,560**	Ps 1,007,266

y. New accounting Statements

As of January 1, 2005 the following statements became effective: Statement B-7 "Business acquisitions", the document of amendments to Statement C-2 "Financial instruments", Statement C-10 "Derivative financial instruments and hedging transactions" and Statement D-3 "Labor obligations", all of which were issued by the Mexican Institute of Public Accountants.

At the date of issuance of these financial statements, the Company's management is performing a study to determine the effect of these new statements on the financial statements as of January 1, 2005, and it will recognize the corresponding effects, if required.

z. 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.

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

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

December 31,	**2004**	2003
Short-term accounts receivable:		
Amcor (1)	**Ps 53,935**	Ps 53,564
Sundry Debtors	**167,048**	211,127
	Ps 220,983	Ps 264,691
Long-term accounts receivable:		
Amcor (1)	**Ps 274,098**	Ps 345,887
TV Azteca Noreste, S. A. de C. V. (2)	**14,584**	17,672
	Ps 288,682	Ps 363,559

(1) Total operation amounts to Ps328,033 (Ps 399,451 in 2003) 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,	2004	2003
Raw materials	Ps **179,115**	Ps 190,136
Finished products	**178,853**	226,003
Materials and spare parts	**156,840**	162,577
Bottles and cases	**397,440**	495,397
Advances to suppliers and other	**22,813**	37,539
	Ps **935,061**	Ps 1,111,652

NOTE 6 - INVESTMENT IN SHARES

Investment in shares consist of the following:

	% stock ownership	2004	December 31, 2003
Industria Envasadora de Querétaro, S. A. de C. V. (1)	23.60%	Ps **98,721**	Ps 94,380
Promotora Mexicana de Embotelladoras, S. A. de C. V. (1)	20.00%	**8,828**	8,163
Servicios Integrados para la Industria Refresquera, S. A. de C. V. (2)	0.55%	**6**	6
		Ps 107,555	Ps 102,549

(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,	2003	2002
Land	Ps **1,382,877**	Ps 1,326,128
Buildings	**2,819,899**	2,641,431
Machinery and equipment	**4,844,357**	4,917,144
Transportation equipment	**2,707,701**	2,736,586
Refrigerators and sales equipment	**1,620,068**	1,506,791
Computer equipment	**251,746**	271,473
Office equipment	**304,336**	328,428
Construction in progress and other	**125,731**	194,238
	14,056,715	13,922,219
Accumulated depreciation	**(6,552,072)**	(6,455,113)
	Ps **7,504,643**	Ps 7,467,106

Depreciation charged to income in 2004 and 2003, was of Ps615,797 and Ps698,629, respectively.

As of the date that Statement C-15 of the CPC of the IMPC became effective, Arca's management determined an impairment of fixed assets during 2003, which was recognized as an initial effect of the adoption of such statement in the amount of Ps 228,201. This balance is recorded as a special item within income for the year. See Note 2 paragraph 1. and Note 3 paragraph l.

The Company's Management has considered necessary to constitute provisions for the closing or temporary suspension of some production lines; consequently, it maintains a reserve in El Carmen amounting to Ps54,006 at December 31, 2004.

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,	**2004**	2003
Positive Goodwill		
a) Acquisition of companies	**Ps 1,393,311**	Ps 1,393,311
b) "Excess of cost of shares of subsidiaries on the book value"	**1,255,612**	1,255,612
	2,648,923	2,648,923
Accumulated amortization	**(630,704)**	(498,298)
	Ps 2,018,219	Ps 2,150,625
Negative Goodwill		
Due to "Excess of book value on the cost of shares"	**Ps 2,918**	
Accumulated amortization	**(389)**	
	2,529	

Amortization charged to income in 2004 and 2003, amounted to Ps130,412 and Ps130,930, respectively.

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 $2,918 and its amortization at December 31, 2004 amounted $389.

As a result of the adoption of Statement B-7 "Acquisition of Businesses", goodwill (credit or debit) will cease to be amortized and will be subject to impairment tests in conformity with Statement C-15 "Impairment of Long-Lived Assets and their Disposal", at least on an annual basis. (See Note 31).

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

NOTE 9 – SHORT-TERM AND LONG-TERM DEBT

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

December 31,	**2004**	2003
Stock certificates	**Ps 1,500,000**	Ps 1,577,850
Bank loan	**56,056**	–
Total liabilities from bank loans	**1,556,056**	1,577,850
Short-term debt		
Current portion of long-term debt	**(11,667)**	–
Long-term debt	**Ps 1,544,389**	Ps 1,577,850

Stock certificates were issued for a total of Ps1,500,000 (thousands of nominal pesos), on November 7, 2003. These certificates correspond to the first part of a deposit program for a total of Ps5,000,000 (thousands of nominal pesos). The deposit consisted in an issuance in the amount of Ps1,000,000 (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 Ps500,000 (thousands of nominal pesos) at a 7-year term with an 8.8% fixed interest rate.

Arca's liabilities relative to the syndicated loan, were paid in full during November 2003, using liquid resources derived from the issuance of stock certificates. (See Note 18).

Expenses incurred from the issuance of stock certificates amounted to Ps8,799, which were capitalized and amortized in a five-year period. At December 31, 2004, the amortization of those expenses amounted Ps1,731 (Ps146 in 2003).

The loan agreement described in Note 2 paragraph 8 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, 2004, Arca has unused lines of credit for Ps4,320,000 (Ps5,070,158 and US$12,500 as of December 31, 2003). 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, 2004 and 2003, 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, 2004 and 2003 relative to the balances shown in the consolidated balance sheet.

December 31,	**2004**	2003
Change in benefit obligation:		
Benefit obligation at the beginning of the year	**Ps 597,835**	Ps 628,643
Benefit obligation at the beginning of the year of merged companies (See Note 2)	**(72,131)**	(95,841)
Service cost	**34,229**	32,057
Interest cost	**28,911**	25,652
Effect of personnel transferred	**72,131**	116,271
Benefits paid	**(45,861)**	(62,879)
Effect of the event of obligation reduction	**–**	(31,890)
Loss (gain) from real benefit obligation	**19,677**	(14,178)
Benefit obligation at the end of the year	**Ps 634,791**	Ps 597,835
Change in plan asset:		
Fair value of the plan asset at the beginning of the year	**Ps 221,850**	Ps 220,981
Fair value of the plan asset at the beginning of the year of merged companies	**(31,503)**	(34,313)
Inflationary adjustment of the initial balance	**(2,469)**	7,430
Actual return on plan assets	**2,305**	234
Purchases/Transfers	**43,851**	18,358
Arca's contribution	**66,441**	55,476
Benefit paid	**(41,328)**	(48,785)
Fair value of the plan asset at the end of the year	**Ps 259,147**	Ps 219,381

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,	**2004**	2003
Projected benefit obligation	**Ps 634,791**	Ps 597,835
Transition liability	**(173,903)**	(192,246)
Unamortized actuarial gains and losses	**(76,514)**	(48,197)
Plan assets	**(259,147)**	(219,381)
Projected net liability	**Ps 125,227**	Ps 138,011
Accumulated benefit obligation	**Ps 230,074**	Ps 236,496
Accumulated net liability (1)	**Ps 83,150**	Ps 87,456
Minimum additional liability (1)	**Ps 11,461**	Ps 17,517
Intangible asset	**(9,776)**	(13,983)
Stockholder's equity reduction	**Ps 1,685**	Ps 3,534

(1) 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 established by them.

December 31,	**2004**	2003
Average remaining service life (in years):		
Pensions	**19**	15
Seniority premiums	**15**	19
Postretirement benefits	**18**	18

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

December 31,	**2004**	2003
Service cost	**Ps 36,418**	Ps 30,830
Financial cost	**31,029**	24,669
Expected return on assets	**(16,959)**	(11,703)
Amortization of net transition obligation	**21,890**	15,449
Amortization of actuarial gains and losses	**4,324**	1,741
	Ps 76,702	Ps 60,986

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,	**2004**	2003
Weighted discount rate	**5%**	5%
Estimated return on plan assets	**6%**	6%
Increase rate in salaries	**1.5%**	2%

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 February and July, 2002, the MAC resolved that Coca-Cola bottlers perform certain commercial practices that constitute violations to the Federal Antitrust Law.

Arca filed writs of relief against these resolutions and other acts before the MAC. As a result of these procedures, the aforementioned resolutions have cancelled. However, the MAC could restart the procedure against Arca and other TCCC bottling companies.

c) General dispositions of the CNBV

On July 15, 2002, Arca's stockholders constituted a Trust (see Note 12). By virtue of this trust, all shares corresponding to it are voted in the same sense with respect to all issues that should be submitted to the stockholders' consideration.

In March 2003, the CNBV issued general dispositions applicable to issuers and other stock market participants. In conformity with these dispositions, the Company does not have the minimum capital stock percentage required among majority investors; therefore, none of the stockholders comprising the Trust can be considered as majority investors in accordance with the new general dispositions.

With the purpose of rectifying this situation, Arca's majority stockholders decided, in December 2003, to sell 35 million shares representing 4.34% of outstanding shares, through the BMV. With this measure, Arca improved the marketability of the Company's shares; additionally, share investment among majority investors was increased 70%, from 6.38% to 10.10%. This action allowed Arca to continue being part of the company sample of the Quotation and Price Index of the BMV as from February 2004.

d) 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. At the date of the issuance of these financial statements, the trial is in the test presentation stage and Arca estimates to obtain a favorable resolution within the following three months.

e) Contingent liabilities

At December 31, 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:

	2004			2003
	Historical value	Restatement	Total	Total
Stockholders' equity	Ps 50,000	Ps 4,161,680	Ps 4,211,680	Ps 4,211,680
Additional paid in capital	516,274	87,620	603,894	601,115
	566,274	4,249,300	4,815,574	4,812,795
Retained earnings	8,087,510	(1,362,466)	6,725,044	6,223,350
Cumulative translation adjustment of foreign subsidiary	5,823	–	5,823	6,185
Stockholders' reduction from labor obligations	(1,685)	–	(1,685)	(3,534)
Deficit from restatement	–	(2,000,609)	(2,000,609)	(1,927,982)
	8,091,648	(3,363,075)	4,728,573	4,298,019
Total majority interest	8,657,922	886,225	9,544,147	9,110,814
Minority interest	136	–	136	133
Total stockholders' equity	Ps 8,658,058	Ps 886,225	Ps 9,544,283	Ps 9,110,947

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, 2004 and 2003, 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 27 and November 3, 2004, the stockholders agreed to distribute a dividend of Ps0.70 and Ps0.80 per share, respectively.

In General Ordinary Meetings held on April 29 and December 4, 2003, the stockholders agreed to distribute a dividend of Ps0.68 and Ps0.62 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 Ps400,000 (thousand of nominal pesos), amount that was ratified in the stockholders' meeting held on April 27, 2004. At the year ended December 31, 2004, the total amount of shares was 3,807,300, equal to Ps63,819 (765,100 shares equal to Ps9,346 in 2003). At the date of issuance of these consolidated financial statements, the market value of Arca's shares was Ps 24.

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 4.62% and 7.69% if they are paid from the reinvested Net Tax Profit Account. Any dividends paid in excess of this account are subject to a tax equivalent to 42.85%, 40.84% or 38.91% depending on whether paid in 2005, 2006 or 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,	2004	2003
Loss from sales and estimates for the disposal of fixed assets	**(Ps134,978)**	Ps 34,748
Return of Salary Credit Substitute Tax	**53,419**	–
Other (1)	**14,657**	(2,541)
	(Ps 66,902)	Ps 32,207

(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 1999, the "controlling companies", as defined by the Income Tax Law, may consolidate for income tax purposes, the results of their subsidiaries for up to 60% of the investment maintained in such subsidiaries.

During 2004, 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,	2004	2003
Currently payable:		
Income tax	**Ps 884,899**	Ps 824,031
Employees' profit sharing	**178,361**	218,367
	1,063,260	1,042,398
Deferred income tax	**(263,337)**	(100,459)
	Ps 799,923	Ps 941,939

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

December 31,	2004	2003
Income before income tax and employees' profit sharing	**Ps 2,648,646**	Ps 1,999,247
Equity on income of affiliates	**(5,500)**	(5,455)
Income before income tax and employees' profit sharing	**2,643,146**	1,993,792
Statutory tax rate (33% in 2004 and 34% in 2003)	**872,238**	677,889
Differences between tax and financial accounting for:		
Inventory purchases versus cost of sales	**(77,964)**	19,111
Depreciation, amortization and disposal of fixed assets	**(127,253)**	(94,096)
Financing cost related to inflation	**11,191**	66,799
Special tax consolidation items	**(16,935)**	85,456
Asset tax	**–**	10,368
Allowances and other non deductible	**(39,715)**	(41,955)
Current and deferred income tax	**Ps 621,562**	Ps 723,572
Effective tax rate	**24%**	36%

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

December 31,	**2004**	2003
Inventory	**Ps 186,633**	Ps 312,877
Property, plant and equipment	**952,277**	1,093,194
Liabilities for pension plans and seniority premiums	**(40,701)**	(39,716)
Tax loss carryforwards	**–**	(2,009)
Other	**(21,082)**	(21,331)
Total net deferred income tax liability	**Ps 1,077,127**	Ps 1,343,015

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 one percentage point per year 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 16 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, 2004 and 2003, the exchange rates were: Ps11.21 and Ps11.19 nominal pesos to the dollar, respectively.

As of December 31, 2004 and 2003, Arca had the following foreign currency assets and liabilities:

December 31,	**2004**	2003
Monetary assets	**US$ 97,814**	US$ 69,993
Monetary liabilities	**(8,023)**	(1,660)
Net monetary position	**US$ 89,791**	US$ 68,333

ARCA's foreign currencies transactions were as follows:

December 31,	**2004**	2003
Sales	**US$ 16,474**	US$ 15,065
Purchase of raw material	**(4,501)**	(11,159)
Purchase of fixed assets	**(16,964)**	(6,598)
Services	**(111)**	–

At March, 22, 2005, date of issuance of these audited financial statements, the exchange rate was Ps11.18 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

	2004	2003	Var. %
Colas	**277,657**	285,076	(2.6%)
Diet soft drinks	**25,827**	25,040	3.1%
Flavors	**100,132**	94,759	5.7%
Purified water	**10,797**	9,410	14.7%
Other	**2,464**	2,568	(3.1%)
Total	**416,877**	416,853	

b. Accumulated sales by brand

	2004	2003	Var. %
Coca-Cola	**371,840**	366,247	1.5%
Proprietary and third party brands	**45,037**	50,606	(11.0%)
Total	**416,877**	416,853	

c. Accumulated sales by presentation and size

	2004	**% of total**	2003	% of total
Returnable	**197,189**	**47.3%**	230,987	55.4%
Non returnable	**219,688**	**52.7%**	185,866	44.6%
Total	**416,877**	**100.0%**	416,853	100.0%
Single serve	**226,829**	**54.4%**	237,774	57.0%
Multiple serve	**190,048**	**45.6%**	179,079	43.0%
Total	**416,877**	**100.0%**	416,853	100.0%

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

December 31,	**2004**	2003
Cocas	**66.6%**	68.4%
Diet soft drinks	**6.2%**	5.9%
Flavors	**24.0%**	20.4%
Purified water	**2.6%**	2.3%
Other	**0.6%**	3.0%
	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 due from related parties are as follows:

December 31,	**2004**	2003
Innovadora de Esencias Aromas y Sabores, S. A. de C. V. (Ideas) (1)	**Ps –**	Ps 1,696
Transportes Especializados Regiomontanos, S. A. de C. V. (Tersa) (2)	**372**	936
Transportes Frontera de Chihuahua, S. A. de C. V. (TFC) (3)	**–**	325
Criotec, S. A. de C. V. (Criotec) (4)	**2,106**	326
Desarrolladora Corporativa, S. A. de C. V. (Descorp) (5)	**–**	2,142
Componentes de Vehículos Recreativos, S. A. de C. V. (Coveresa) (6)	**–**	33
Fevisa Industrial, S. A. de C. V. (Fevisa) (7)	**3,372**	2,316
Novamex, S. A. de C. V. (Novamex) (8)	**–**	706
Industria Carrocera San Roberto, S. A de C. V. (10)	**4,396**	1,218
Alineación y Balanceo del Norte, S. A. de C. V.	**10**	–
EON México, S. A de C. V.(11)	**9,896**	85
Litografía de Saltillo, S. A de C. V.	**70**	18
	Ps 20,222	Ps 9,801

These amounts are included at December 31, 2004 and 2003 within the suppliers' item.

The main transactions with related parties were as follows:

December 31,		2003
Revenues:		
Sales of bottles and products (8)		Ps 11,560
Lease (9)		290
		Ps 11,850

December 31,	**2004**	2003
Costs:		
Purchase of concentrate (1)	**Ps 46,793**	Ps 52,133
Freights (2) (3)	**5,815**	111,112
Acquisition of refrigerators (4)	**88,711**	88,635
Purchase of bottles (7)	**25,189**	31,568
Bodyworks (10)	**7,451**	14,638
Monitoring services of vending machines (11)	**19,077**	6,301
Insurances (12)	**–**	1,770
Advertising services	**–**	1,440
Uniforms for employees	**–**	1,039
Printing and stationery	**721**	1,458
Other	**854**	764
	194,611	310,858
Net	**(Ps 194,611)**	(Ps 299,008)

(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 paragraph 1). Additionally, Arca leases some properties to Ideas, which after the abovementioned date are eliminated for consolidation purposes.
(2) Tersa is a transportation company owned by some of the Arca's shareholders. Tersa provides Arca with 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) TFC is a company majority owned by some of Arca's shareholders. TFC provides Arca with 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) Descorp is a company owned by some of ARCA's shareholders.
(6) ARCA purchases bodyworks for its soft drink delivery trucks from Coveresa, a company owned by some of ARCA's shareholders.
(7) ARCA purchases glass returnable bottles from Fevisa, a company owned by some of the ARCA's shareholders.
(8) Novamex is a subsidiary of Sistema Axis, S. A. de C. V. that acquires from ARCA, disposable bottles as well as product maquila services.
(9) Until July 2001, Dasa owned and leased some buildings and other properties to Ideas and Tersa. As from May 2004, Arca owns Ideas.
(10) 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.
(11) 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.
(12) ARCA acquires some insurance policies through the daughter of one of its major stockholders.

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 revisions 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 be derived, such as revisions made in 2004, which originated payments of Ps53,382, corresponding to corrections of prior years.

NOTE 18 – FINANCIAL INSTRUMENTS

Derived from the issuance of stock certificates in 2003 (See Note 9), the advance payment of the syndicated loan and some derivatives that the Company kept as a risk protection measurement was made possible. Expenses amounting Ps 83,061 were incurred at the moment these derivatives were cancelled. This expense was recorded within financial expense in income for 2003.

Subsequently, Arca entered into 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, 2004, interests were accrued in the amount of Ps293. Interest relative to this agreement will be payable in April 2005.

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.

   Until December 31, 2004, interest payments had been made for Ps3,716, and accrued interest had been recorded for Ps551. The financial expense (net) item in the comprehensive financing cost includes Ps 3,165 corresponding to these interests.

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

	Market value
BAMSA	Ps 28,976
ING	22,794

NOTE 19 – FINANCIAL LEASE

In conformity with the plans authorized by the Board of Directors mentioned in Note 2 above, 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, 2004, Arca has an account receivable derived from the financial lease for US$31,500 (US$36,750 in 2003), which in accordance with the contract, bears interest at an annual 7.2% rate maturing in the following years:

2005	US$ 5,250
2006	5,250
2007 to 2010	21,000
	US$ 31,500

Interests recorded amounted to a total of US$6,649 and US$8,678 at December 31, 2004 and 2003, 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 328,033 and Ps 399,451 at December 31, 2004 and 2003, respectively (see Note 4).

Francisco Garza E.
Chief Executive Officer

Adrián Wong B.
Chief Financial Officer

Report from the Audit Committee

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

Dear Sirs:

In accordance with Article 14 Bis 3 of the Securities Market Law as well as the general regulations applicable to Securities Issuers, we are pleased to report the activities performed during the period between April 2004 and March 2005, for which we have followed the recommendations of the Code for Best Corporate Practices.

To fulfill our responsibilities, this Committee completed the following activities:

1. During this period we conducted 10 meetings, to which we invited the Company's Statutory Auditor.
2. After a careful analysis, we recommended that the Board of Directors ratify the hiring of PricewaterhouseCoopers as the external auditing firm responsible for auditing the Company's financial statements. In our meetings with them we reviewed the programs and depth of their work as well as their Reports of Comments and Recommendations for Internal Control and others that they periodically presented to us. We also assured that they complied with the requirements of independence and personnel rotation.
3. We reviewed the organizational structure of our Internal auditing activities and proposed to the Board the outsourcing of these functions, for which the firm of Deloitte Touche Tohmatsu was hired. In our meetings we revised their work plan and the reports that they presented to us regularly, and we followed up on the corrective measures taken. The management team has ensured that this function receives full cooperation to perform adequately.
4. We submitted for the approval of the Board of Directors the general guidelines of internal control, evaluated their effectiveness through the reports of the internal and external auditors and promoted a general atmosphere of control.
5. The Management Team presented for consideration of the Committee all significant operations and related party transactions, which were all duly documented and justified.
6. We reviewed the periodic reports prepared by Management regarding the legal status of the Company, and had no significant comments.
7. Upon review of the Consolidated Financial Statements of the Company as of December 31, 2004, the accounting practices utilized in their preparation as well as the report of the External Auditor, we request to the Board of Directors its approval so that they be included in the Annual Report that will be presented at the Annual Shareholders' Meeting.

Sincerely,

AUDIT COMMITTEE

Fernando Olvera Escalona
President

Ulrich Fiehn Buckenhofer

Juan B. Maldonado Quiroga

Glossary

ARCA: Embotelladoras Arca, S.A. de C.V., formerly Proyección Corporativa, S.A. de C.V.
Argos: Embotelladoras Argos, S.A. de C.V.
Arma: Empresas El Carmen, 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.
Unit Case: Unit of measurement used in the beverage industry; equivalent to 24 eight-ounce servings.
IPADE: Instituto Panamericano de Alta Direccion de Empresas.
ITAM: Instituto Tecnologico Autonomo de Mexico.
ITESM: Instituto Tecnologico y de Estudios Superiores de Monterrey.
MUC: Million Unit Cases.
Per Capita Consumption: Average servings of product consumed per person in a specific market.
PET: Non-returnable plastic container.
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.
PET Preform: Intermediate product manufactured from PET resin from which PET bottles are produced through a blowmoulding process.
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: Returnable plastic container.
Vending Machine: Non-returnable soft-drink dispenser that operates with coins.

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COTIZA EN BOLSA MEXICANA DE VALORES
ARCA

ECOCE
ESR
EMPRESA SOCIALMENTE RESPONSABLE

Design: Herring Design   Photography: David Leah (cyclists), Camilo Garza   Printing: EarthColor, Houston

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ARCA