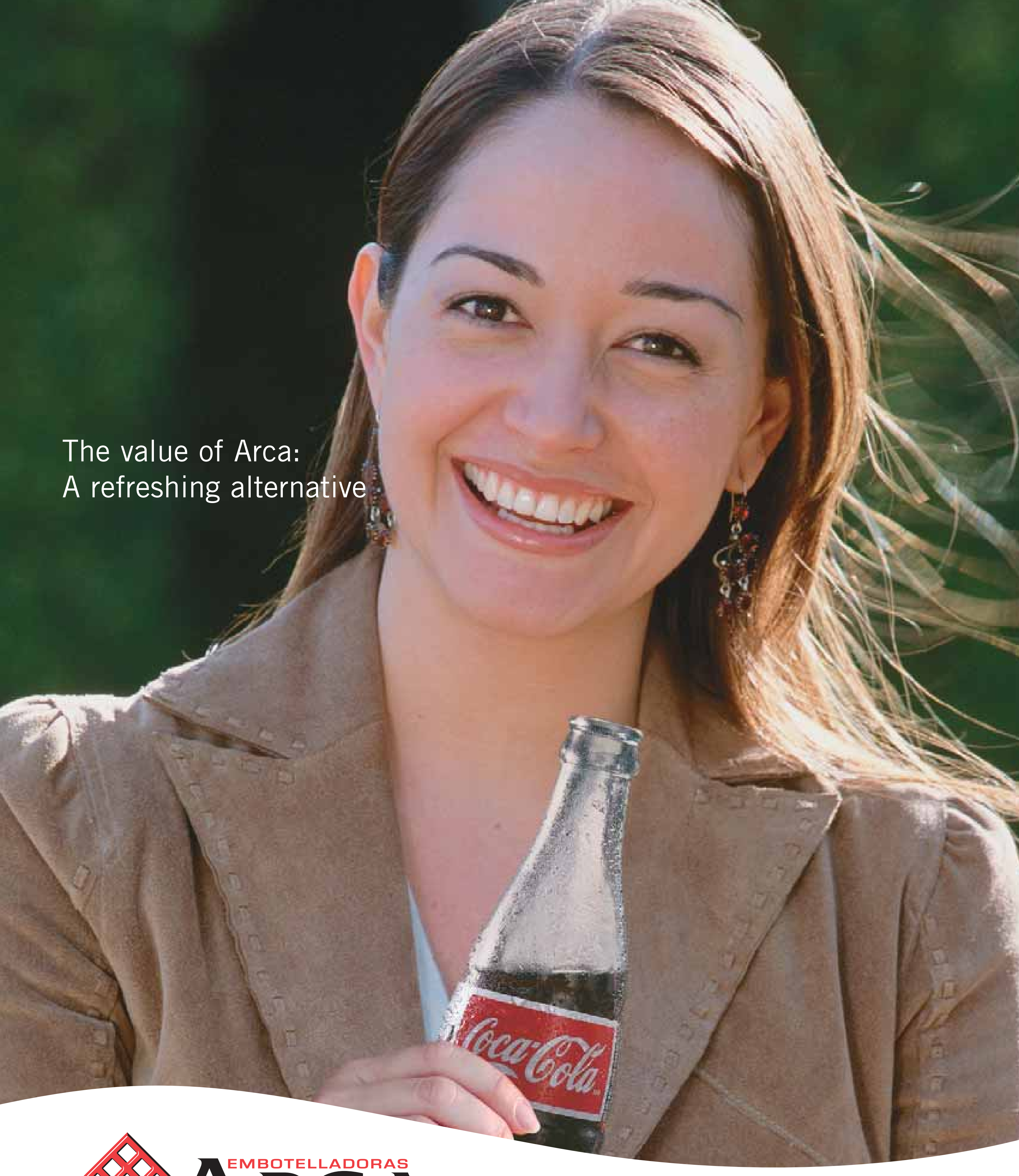
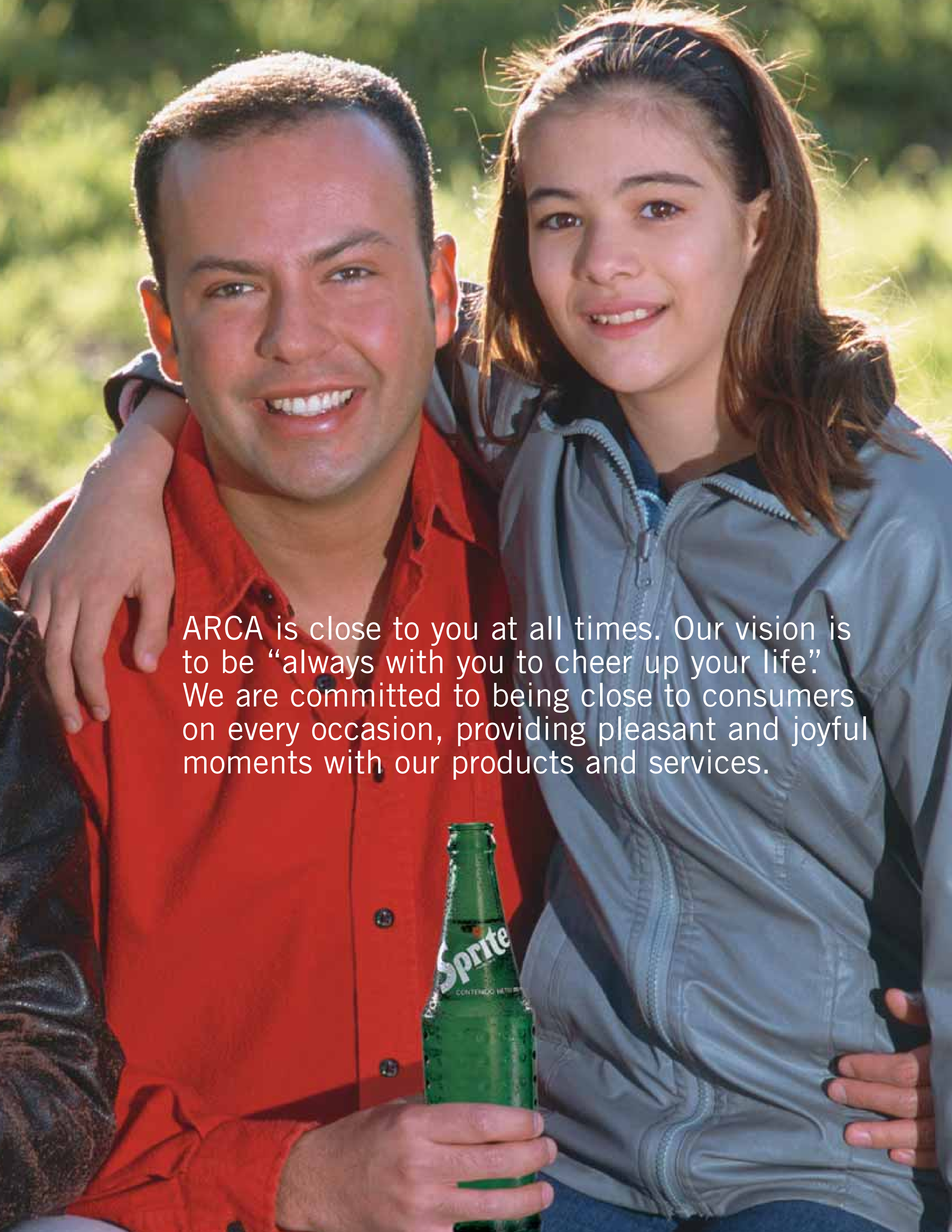



# The value of Arca: A refreshing alternative

EMBOTELLADORAS ARCA

2003 Annual Report


Joya



ARCA is close to you at all times. Our vision is to be "always with you to cheer up your life." We are committed to being close to consumers on every occasion, providing pleasant and joyful moments with our products and services.

## 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.

## ARCA's Mission

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 U.S. and act in a socially responsible manner with our people and in our community.

**Contents**

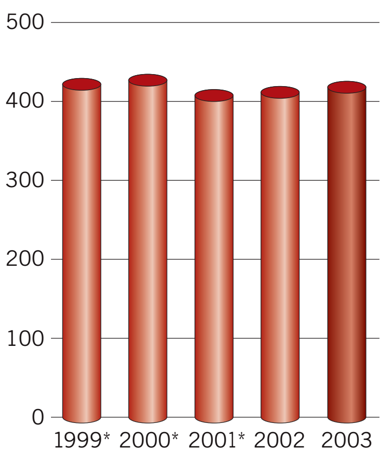
# Financial Highlights

(In millions of Mexican Pesos in purchasing power as of December 31, 2003 except per share data)

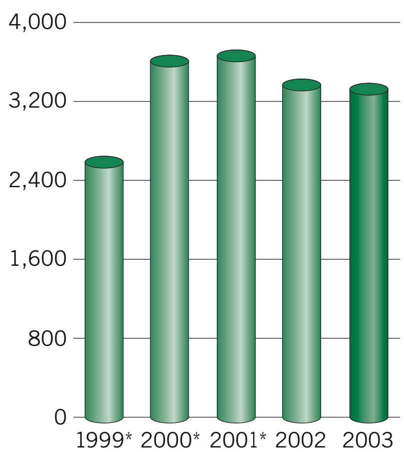
| | **2003** | 2002 | % Change |
|---|---|---|---|
| Sales volume (millions of unit cases)[1] | **416.9** | 410.6 | 1.5% |
| Net sales | **13,938** | 13,674 | 1.9% |
| Operating profit[2] | **2,535** | 2,549 | -0.5% |
| EBITDA[3] | **3,324** | 3,349 | -0.7% |
| Net income | **1,005** | 1,255 | -19.9% |
| Total assets | **12,558** | 13,565 | -7.4% |
| Cash on hand | **1,093** | 1,437 | -23.9% |
| Total debt | **1,500** | 2,115 | -29.1% |
| Stockholders' equity | **8,661** | 8,762 | -1.2% |
| Free cash flow[4] | **1,835** | 1,682 | 9.1% |
| Dividends paid | **1,061** | 565 | 87.9% |
| Capital expenditures | **550** | 510 | 7.9% |
| | | | |
| Data per share[5] | | | |
| *Net income* | **1.25** | 1.56 | |
| *Book value* | **10.75** | 10.87 | |
| *Dividends paid* | **1.32** | 0.70 | |

1 Includes soft drinks and purified water in personal formats.
2 Excludes non-recurring expenses for a total of Ps 297 million in 2003, and Ps 144 million in 2002.
3 Operating income plus depreciation and amortization of goodwill. Excludes non-recurring expenses mentioned in note 2.
4 Operating cash flow after working capital needs.
5 Based on 806,019,659 shares outstanding.

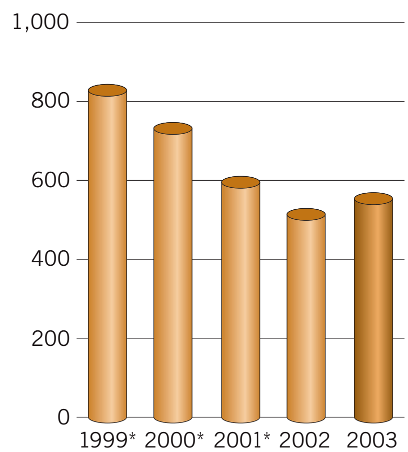
**Sales Volume**
(in millions of unit cases)




**EBITDA****
(in millions of Mexican Pesos)




**Capex**
(in millions of Mexican Pesos)




* 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, 1999, 2000 and 2001.
** Excludes non-recurring expenses

**The return of a classic...** Nostalgia and modernism unite in the smaller, 8 oz. non-returnable glass presentation of Coca-Cola.

We have built an agile and efficient organization, focused on capitalizing on benefits from the merger that created ARCA and strengthening our competitive position in the market.

**To our Fellow Shareholders:** 2003 was a year of significant changes for ARCA. The key strategic projects that were launched at the beginning of the year produced tangible results.

The merger that created ARCA has prepared us to face the growing challenges of the Mexican beverage industry. The competitive advantages we consolidated, combined with the efficient operation of our bottling and marketing activities, have made our Company a more modern and flexible organization, better able to serve its customers and consumers.

In addition, our integrated, state-of-the-art systems have given us the capability to respond faster and more effectively to the changing needs of today's increasingly dynamic environment, positioning us to capitalize on market opportunities.

**A New Business Environment**

2003 saw a modest recovery of the world economy, which was reflected in Mexico's slow economic growth and a limited job creation. The Mexican soft drink industry grew approximately 2% in volume.

The competitive environment of the soft drink sector changed significantly during 2003: new, low priced competitors entered the market and our traditional competitor was acquired by its brand's main global bottler, increasing its aggressiveness and activity.

We anticipated this new reality proactively, strengthening our brand differentiation through high quality and service. We also established a Synergy Plan to take advantage of the Company's more flexible and efficient structure, capitalizing on opportunities resulting from the merger. The Plan's priorities include: rationalizing and upgrading installed capacity, reducing costs and optimizing ARCA's organizational structure.

We are pleased to report that this Plan will generate annual savings of approximately Ps. 500 million, 56% higher than originally announced, and that such savings will be achieved ahead of schedule. The full impact of the cost reduction program will be reflected in May 2004, four months earlier than we had projected.


**Miguel A. Fernandez Iturriza**
Chairman of the Board
**Francisco Garza Egloff**
Chief Executive Officer

The Company posted 2003 net sales of Ps. 13,938 million, 1.9% above 2002, while sales volume increased 1.5% year-over-year to 416.9 million unit cases. EBITDA, excluding non-recurring expenses, decreased 0.7%, from Ps. 3,349 million in 2002 to Ps. 3,324 million in 2003. Net income declined 19.9% to Ps. 1,005 million, or Ps. 1.25 per share, affected by the costs and expenses incurred to implement merger-generated synergies.

**Value Creation Initiatives Drive ARCA's Competitiveness**

In order to make ARCA increasingly productive and profitable, in 2003 we implemented initiatives that had a positive effect on value creation and established a firm foundation for the Company's future development.

The most important of these initiatives was to improve our market position by further adapting our portfolio of products to the preferences of our customers and consumers, and by launching new products and formats.

"Our integrated, state-of-the-art systems have given us the capability to respond faster and more effectively to the changing needs of today's increasingly dynamic environment, thereby positioning us to capitalize on market opportunities."
— Miguel A. Fernandez Iturriza

We also focused on institutional channels, supermarkets and convenience stores, by introducing new marketing strategies and more attractive presentations, thereby positioning the Company to capitalize on the opportunities in this important segment.

We strengthened our competitive advantage in the traditional channel by offering more chilled products, with the installation of approximately 18,000 new coolers. In addition, we installed 2,400 vending machines throughout our territory, increasing the total number by almost 40% compared to the previous year.

In 2003, we made significant progress with projects to support the Company's strategy of increasing productivity and reducing operating and administrative costs, by concentrating production at 14 plants, down from a total of 20 at the end of 2002. We also decreased the

**New flavor, same freshness...** In 2003 we launched Vanilla Coke to capture new consumer occasions.

number of distribution centers in operation from 78 to 67 and reorganized our operating structure into six regions under one Chief Operating Officer.

We continued the expansion of our presale system, finalizing its implementation in Monterrey and Tamaulipas and thereby enhancing productivity per route and delivery service grades.

One of the main actions related to our cost-reduction strategy was the commercial alliance we established with AMCOR – a world leader in the PET bottle production business – to outsource 100% of our non-returnable plastic bottles.

"We will continue to focus on service, market execution, and the differentiation of our portfolio of products and brands. At the same time, we will be looking for ways to reduce costs and increase the productivity and profitability of our operations."

— Francisco Garza Egloff

During the year, we built two sugar clarifying plants in Monterrey, both of which are currently in their start-up phase. These plants will contribute to our goal of reducing raw material costs and adapting our production systems to use alternative supply sources.

The state-of-the-art administrative systems that are now an integral part of our business operations have become a key element in uniting the Company's strategies into one uniform, corporate platform. In March 2004, we completed the most ambitious phase of our Integral Information System, the INTEGRA Project, which will give us real-time, reliable information to control and develop our processes more effectively.

In the area of supply chain, we recently began *Project EVOLUCION*, which seeks, among other objectives, to reduce inventory levels, increase product availability at points of sale and raise the general efficiency of our operations, at the lowest possible cost.

Another important event for ARCA in 2004 was the integration into our territory of a Coca-Cola franchise in the state of Chihuahua. This addition to ARCA serves the cities of Meoqui, Delicias, Camargo and Saucillo, and offers considerable growth potential under ARCA's management. Moreover, the new franchise further evidences The Coca-Cola Company's trust in the way we operate and in the future of our Company.

Among our financial achievements for the year was the expansion of the Company's presence in the equity market. ARCA's majority shareholders sold 35 million shares through the Mexican Stock Exchange, equivalent to 4.34% of the Company's stock, thereby raising our public float by 70%. As a result of an improving stock liquidity, starting February 2004, ARCA is part of the IPC Index.

**The Future**

Going forward, we will consolidate the actions we have already taken and continue to capitalize on the competitive advantages created by the merger and new scale of ARCA's operations.

Furthermore, in an increasingly competitive business environment, we will continue to focus on service, market execution, and the differentiation of our portfolio of products and brands. In these efforts, we will partner with *The Coca-Cola Company* to enhance our capability to segment the markets we serve, thereby positioning us to offer the right products, at the right price, at every point of sale.

We will seek to expand our market presence by launching new flavors, introducing new packaging that adds value for the consumer, and reinforcing the image of new categories. At the same time, we will implement other growth initiatives, such as the continued installation of new coolers and vending machines, and a focus on increasing our presence in institutional channels.

In parallel with these efforts, we will continue looking for ways to reduce costs and increase the productivity and profitability of our operations. In 2004, we expect to complete optimization projects that will generate annual savings of approximately Ps. 100 million and begin to take effect in the last quarter of the year.

2003 was a year of transition which implied a series of significant adjustments to the Company's operations. In line with our mission and vision statement, in 2004 we will make a concerted effort to emphasize the fundamental aspects of the ARCA culture: the development of our human capital and social responsibility to the communities in which we operate.

We are proud to report that ARCA received the Socially Responsible Company Award from the Mexican Center of Philanthropy for its outstanding efforts during 2003 in environmental preservation and business ethics, and for its solidary involvement with the community and concern for the quality of life of its employees.

We would not be in a position to report any of these achievements without the integrity and professionalism of the ARCA family. We would like to thank each and every one of you for your daily commitment to building an organization that is increasingly competitive and with a future that is ever more promising. In particular, we would like to thank the members of our Board of Directors for their unconditional support, which has been a key factor in our organization's positive performance, and our consumers, customers, suppliers, personnel and shareholders for their continued trust in our Company in 2003.

**Miguel A. Fernandez Iturriza**
Chairman of the Board

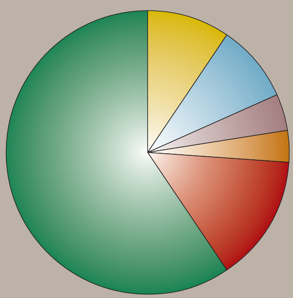
**Francisco Garza Egloff**
Chief Executive Officer


Sprite
1,5 LITROS
$10.00
Coca-Cola light
Coca-Cola vainilla
NO RETORNABLE
Sprite
Ciel
Joya
REFRESCO
Fanta
naranja
NESTEA
Fresca
Sprite
CERO CALORIAS
Nuevo Sabor Manzana Verde
manzana LIFT
Coca-Cola
Joya
Topo Chico
Topo Chico
AGUA MINERAL
Delaware Punch
Joya LIGHT
manzana light
Coca-Cola
Coca-Cola vainilla
NUEVA
PONTE INTENSO
NUEVO!
Sabor Cítrico
BEAT
Pruébala
Coca-Cola light

# Relevant Market Highlights

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.

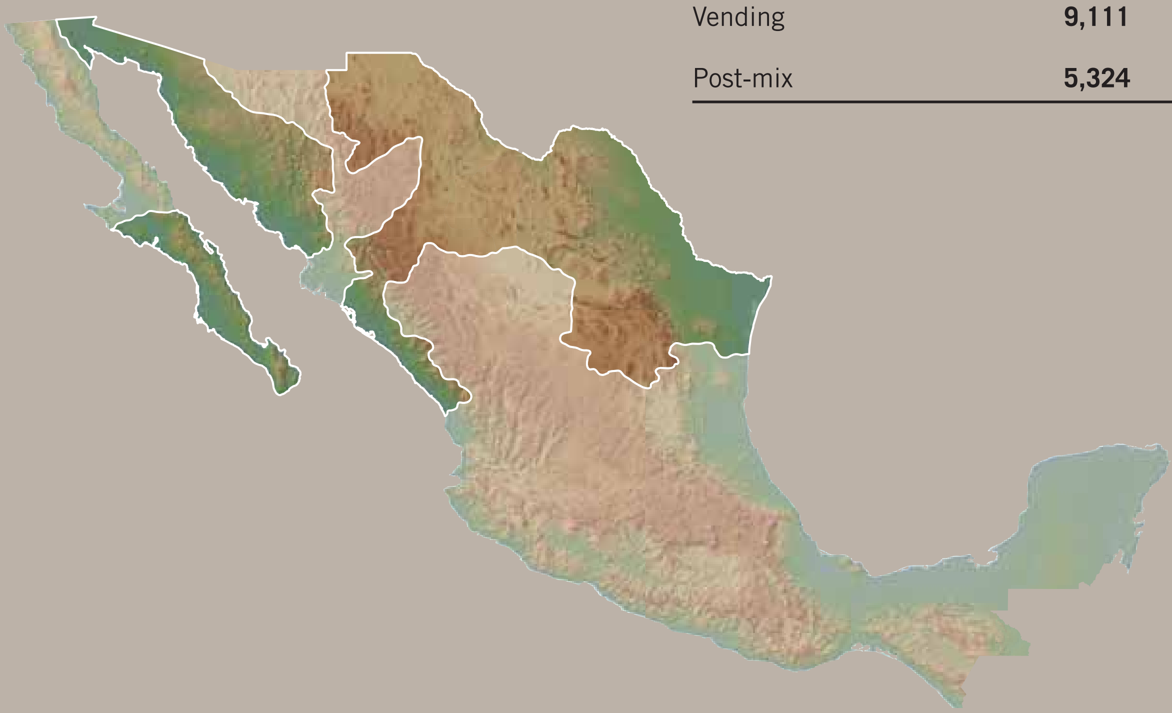
**2003 Sales by Distribution Channel**




| Operational Highlights | 2003 | 2002 |
|---|---|---|
| Bottling Plants | **14** | 20 |
| Distribution Centers | **67** | 78 |
| Routes | **1,701** | 1,832 |

| Market Information | 2003 | 2002 |
|---|---|---|
| Population (millions) | **14.9** | 14.6 |
| Points of sale | **200,000** | 191,000 |
| Coolers | **179,510** | 161,130 |
| Vending | **9,111** | 6,674 |
| Post-mix | **5,324** | 4,850 |

**ARCA's Territories**




**For those who share the desire to stay fit...** we introduced the 2.5 liter non-returnable presentation of Coca-Cola Light.

Our Value Creation Initiatives enable us to produce tangible benefits for our consumers, customers, personnel, shareholders and the community. These efforts are the foundations of our profitable growth platform.

The following pages present the achievements that the different areas of ARCA have made after two years of operating as a single entity. The initiatives we have implemented during this time have enhanced our productivity and profitability and, more importantly, positioned us better to face the challenges of our highly dynamic industry.

**More flavors...** Fruit-flavored Powerade is here to increase our range of choices for those who like to be involved in sports.

# Initiative 1: To Increase Sales Volume

We are a results-oriented company focused on profitable growth. In 2003, we implemented a more precise pricing architecture, strengthened our presence in certain channels and improved our distribution network. Several of our goals have yet to be attained, but we know we are on the right track.

**Growth in sales volume** 1.5%

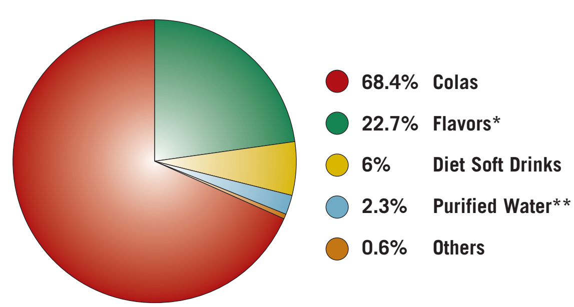
ARCA's business model is supported by information systems that allow us to continuously identify new opportunities for creating value. As a result, we have improved our segmentation capabilities and distribution processes, positioning us better to serve our markets and support the demand for our products.

In 2003, the Company reported a 1.5% growth in sales volume year-over-year, driven mainly by the strong performance of the flavored soft drink segment, single serve water and new categories.

We implemented several actions in order to further increase the availability and consumption of our products, focusing on improving our competitive advantages. We installed more than 18,000 coolers in our customers' facilities, as well as 2,400 vending machines, and raised the number of points of sale from 191,000 in 2002 to 200,000 at the end of 2003.

Supermarkets and convenience stores offer attractive growth prospects, so we strengthened our presence in these institutional channels through renewed marketing campaigns, the launch of several multipack products and the placing of coolers in cash-register areas, among other activities.

**2003 Sales by Segment**




* "Flavors" includes third-party sales and exports of Topo Chico products. Does not include powders.

** Does not include 19- liter jug water.

Our continuous promotions and advertising campaigns, involving topical themes such as sports, music and traditional values, were an essential part of our strategy to get closer to our consumers in 2003. These initiatives opened up new communication paths and increased consumer preference for our brands.

The expansion of our presale system to include the Tamaulipas border region and the city of Monterrey generated positive results for our sales strategy and increased productivity per route, practically eliminating unsold inventory from our distribution trucks. The measure also allowed us to distribute a broader range of products and presentations, replicating the success we have had in our other territories.

As part of our ongoing strategy to identify and capitalize on new business opportunities, we recently integrated a Coca-Cola franchise in the cities of Meoqui, Delicias, Camargo and Saucillo in the state of Chihuahua into our operations. Going forward, we expect our effective management team to take full advantage of this region's growth potential. The new addition to ARCA strengthens our relationship with *The Coca Cola Company* and reflects its confidence in the way we operate and in the future of our organization.

During 2003, we capitalized on the geographic location of ARCA's operations and the superior value of our brands to continue expanding our presence in the Hispanic market in the U.S., posting over US$15 million in exports for the year.


**Fresca releases flavor...** A new flavor of Fresca was launched, Pink Grapefruit, in 500 ml. PET to offer a novel option to the followers of this segment.


**Grow with our clients.** We are always close to our clients looking after their needs. We continuously seek to open new communication paths with consumers and increase their preference for our brands.



**Great and affordable flavor options...** We offer consumers more alternatives in our flavored soft drinks with Sprite now in 500 ml. PET.

# Initiative 2: To Increase the Value of Our Product Portfolio

To improve its market position, ARCA continuously seeks to enter new high value-added niches and launch new presentations. Our goal is to consistently offer our consumers the right product, at the right price, through the sales channel of their preference.


**The launch of new product presentations during the year met the specific needs of our consumers.**

Satisfying our consumer's needs and reinforcing their loyalty to our brands are essential components for increasing ARCA's competitiveness. To achieve this, we make an ongoing effort to identify the precise desires and expectations of the different niches that we serve, thereby ensuring that our product portfolio continues to be attractive and profitable.

In 2003, we strengthened the positioning of our brands by introducing new presentations in several territories. These included 3-liter colas, mainly in supermarkets, and 2.5 liter flavors in non-returnable formats in all channels. These last were well accepted and resulted in a 3.5% increase in flavor sales. In single serve formats, we launched 8 oz. non-returnable glass, 500 ml. PET and flavors in 250 ml. PET presentations.

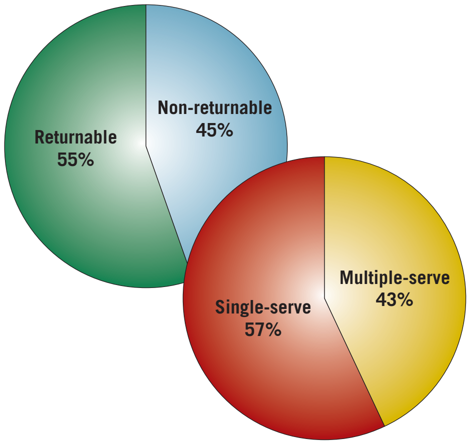
In our efforts to satisfy the preferences of an increasingly demanding consumer, in conjunction with *The Coca Cola Company*, we launched Vanilla Coca-Cola, Sprite Zero and Nestea. All of these were well accepted, reinforcing our differentiation in the markets we serve.

## Market Segmentation

In 2004, we will focus our strategies on raising the value of our broad portfolio of products through the rigorous use of state-of-the-art information systems, the presale system and a more detailed market analysis. In this way, we expect to increase our understanding of the consumer and enhance our ability to segment our markets.

Our segmentation strategy will enable us to identify new growth opportunities and increase our capacity to deliver the right product, at the right price, at every point of sale. The launch of new flavors, categories and presentations as a result of this strategy will help us to capitalize on the value of our brands.

**2003 Sales by Format and Size**





**Close to consumers...** To offer consumers other alternatives through new categories, we introduced Nestea in 400 ml. PET.


**Always present in consumer's lives.** A constant analysis and improvement of ARCA's product portfolio, ensures that our multiple presentations are there to share key moments of our consumers' daily lives.


**A Coca-Cola for each player's thirst...** For consumers who seek to quench their thirst with just the right size and price, we launched Coca-Cola Light in 500 ml.

# Initiative 3: To Optimize Asset Utilization

Today, ARCA is a more flexible company, focused on increasing its operating efficiency through innovation and the extensive use of state-of-the-art technology and information systems.

**Increase in productivity per employee** 15.5%

In our efforts to create a more agile and competitive organization, in 2003 we continued to make progress with a number of corporate projects designed to optimize our organizational structure, raise the profitability of our plants and assets, and streamline supply chain processes.

To improve our bottling plants' capacity utilization, we shut down the production lines at six plants and concentrated operations at 14 other production facilities throughout our territory, thereby exceeding our original objective.

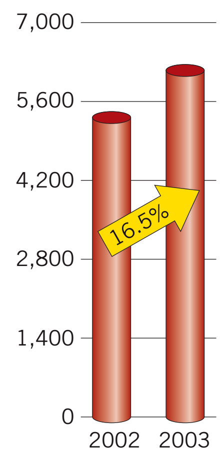
In a complementary action, ARCA reinforced its distribution center optimization strategy, decreasing their number from 78 to 67 and thereby reducing costs while improving the service offered to our customers and consumers.

By implementing our presale system in Monterrey and the Tamaulipas border region, in 2003 we improved our distribution efficiency, reducing the number of routes needed to cover our territory by 7.2% and increasing productivity per route by 9.4%.

These measures, combined with our corporate restructuring and operating unit optimization, resulted in productivity growth of 15.5% year-over-year, from 21,900 unit cases per employee in 2002 to 25,300 during 2003.

Corporate restructuring has enabled us to institutionalize several productivity oriented projects and optimize our administrative structure.

**2003 Volume per Distribution Center***




* Based on year end number of distribution centers

## Strategic Projects

A vital part of our overall improvement strategy was the completion of the most ambitious phase of our INTEGRA information systems project in 2003. Based on the SAP technological platform, INTEGRA has become an essential tool that will unify our administrative systems and give the Company real-time, reliable information from any computer in our network. Furthermore, it will allow us to standardize control and upgrade the response capacity of our operations.

Another initiative that was commenced in 2003 was *Project EVOLUCION,* whose primary objective is to make the supply chain more efficient by synchronizing sales with production, inventories and the product flow of our different bottling plants. This project will ensure that products are continuously available and aligned with the demands of our customers and consumers at the lowest cost possible.

In order to reinforce ARCA's quality service and productivity oriented culture, we will continue to institutionalize continuing-improvement projects. Also, we will identify and divest non-strategic assets, mainly real estate, thereby generating additional cash flow.

**New choices to suit consumer needs...** Fitting a demand for larger personal sizes, we launched 1-liter Ciel.


**Precise information for efficient service.** Our market information systems emphasize the analysis of detailed information from each point of sale to better understand its needs and thereby offer our consumers the right product at the right price.



**All the flavor of green apples...** Green Apple Lift represents a new alternative for the young and innovative.

# Initiative 4: To Reduce Costs

At ARCA we are committed to using our financial resources rationally, which requires us to be highly disciplined in controlling costs. This, as a foundation of our value creation initiatives, is consistent with ARCA's profitable-growth business objectives.

**The Synergy Program implemented in 2003 will generate savings of Ps.** 500 **million**

As part of our plan for reducing costs, in 2003 we established a commercial alliance with AMCOR, one of the world's leading producers of PET plastic bottles. Pursuant to this agreement, AMCOR is supplying 100% of ARCA's non-returnable plastic bottles and has acquired the Company's blowing equipment for more than US$40 million. AMCOR will also invest in new pre-form injection and PET bottle blowing equipment in several of our territories.

The long-term relationship that we have established through this alliance is an important step in ARCA's supply centralizing strategy. This strategy has already enabled us to acquire products and services on a large scale, resulting in significant savings in the procurement of items such as coolers, vending machines, automobiles, delivery trucks and plastic pallets, as well as services such as traveling and insurance.

During the first months of 2004, two sugar clarifying plants began operations. The new facilities will optimize the supply of this important raw material for our processes. With a capacity of 100,000 tons per year, these sugar plants will generate important savings of this raw material.

In 2004, we will continue to focus on finding new opportunities to improve our administrative efficiency and implement projects that make the prices and terms of our procurement needs more competitive. This will make systematic cost reduction a fundamental part of ARCA's corporate culture.



**Tradition in more variety...** All the flavors of Joya, our own brand, are now available in the new 500 ml size.

# Initiative 5: To Be a Socially Responsible Company

We are committed to making the development of our human capital, our communities and the environment essential factors of our business strategy.


**ARCA is recognized as a Socially Responsible Company**

**Development of Human Capital**

ARCA operates with a corporate culture that fosters personal growth as an integral part of the continued improvement of its business activities, promoting the exchange of best practices and gearing specific efforts to developing our personnel's key competitive capabilities.

We are working together with the Coca-Cola Development Center to strengthen our training and development programs. Our continuous efforts will better position us to face the market challenges and generate new opportunities so that every employee at ARCA has the possibility to grow within the Company.

Moreover, we created an agile and efficient organizational structure, that promotes teamwork and professional development in all operational areas of the Company, in response to the new industry dynamics.

Additionally, we took an important step in making the quality focused culture a fundamental part of our organization by defining specific actions related to our mission, vision and values, and integrating them into ARCA's Companywide Improvement System. This step will concentrate all the Company's initiatives and efforts on improving consumer satisfaction.


**Corporate Citizenship**

ARCA has always operated with a philosophy of corporate citizenship and integrity, continuously promoting the development of its human resources, customers, consumers, neighboring communities and the environment.

This commitment was recognized when ARCA received National Certification as a "Socially Responsible Company" for having met the standards of the Mexican Center of Philanthropy's evaluation program during 2003. The award acknowledges companies' performance in relation to issues such as corporate ethics, environmental preservation, solidary involvement with the community and quality of life within the organization.

Receiving the 2004 Socially Responsible Company Award makes us proud of our organization and motivates us to continue offering high value-added products and services to our customers and consumers, while actively participating with our communities.

In the area of environmental conservation, during 2003 we donated time and monetary resources to the national program for collecting and recycling non-returnable bottles, *Ecología y Compromiso Empresarial* (Ecology and Corporate Commitment, or ECOCE), an organization that significantly increased its national coverage in 2003.

In the area of community relations, we formalized our community support programs and established clearer, more concrete initiatives to benefit a broader spectrum of causes. These efforts included giving specific support to schools and social projects that improve the development and quality of life of the communities in which we operate.


**Modern presentations...** We developed the 500 ml. format, ideal for the young lifestyle of our Fanta and Sprite consumers.

(Left to right) Jose Luis Gonzalez, Salvador Oropeza, Francisco Garza, Adrian Wong, Arturo Gutierrez, Pablo Macouzet and Leonel Cruz

# Senior Management

**Francisco Garza Egloff** (49) has been the Company's Chief Executive Officer since January 2003. During the previous 26 years, he held various positions at Grupo 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 the ITESM and has taken several post-graduate courses at IPADE.

**Leonel Cruz Martinez** (51) has been the Company´s COO since 2003. Mr. Cruz joined Argos in 1988 as director of marketing and was named General Manager of Argos' bottling plants in Obregon and Mexicali. In 1998 he was named Chief Operating Officer of Argos, and held this position until the merger of ARCA, Argos and Arma. Mr. Cruz has a Bachelor's in Business Administration and a Masters in Agricultural Economics from the Colegio de Postgraduados de Chapingo.

**Jose Luis Gonzalez Garcia** (52) has been 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 Autónoma de Nuevo Leon and post graduate studies from the IPADE.

**Arturo Gutierrez Hernandez** (38) is ARCA's Director of Corporate Planning and has been the Secretary of ARCA's Board of Directors since 2001. Before joining the Company, he was at 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 in Law/J.D. from Harvard Law School.

**Pablo Macouzet Brito** (50) has been the Company's Chief Technology Officer since 2004. He began working for Coca-Cola de Mexico in 1976. Mr. Macouzet later worked for an important Mexican supermarket chain, and later returned to the bottling industry, working for FEMSA in its soft drink division. In 1989, 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 Masters degree in Planning and Systems from Universidad La Salle.

**Salvador Oropeza Cuevas** (57) has been ARCA's 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** (52) has been Chief Financial and Administrative Officer of the Company 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.

**New image...** Sales of our children's fruit beverage, Frutier, rebounded thanks to the redesign of its brand and packaging.

# Board of Directors

**Miguel Antonio Fernandez Iturriza,** Chairman of the Board, 60 [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, 79 Member of the Consulting Board of BBVA Bancomer. Member of the Board of FEMSA, Cruz Roja de Monterrey and Promocion Rural.

**Emilio Antonio Arizpe y de la Maza,** Vice Chairman, 86 [1,P] Vice Chairman of the Board of Directors of ARCA since 2001. Chairman of the Board of Directors of Fabricas El Carmen, Compania Hotelera del Norte, Hielo de Saltillo, 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.

**E. Angel Elizondo Barragan,** Vice Chairman, 56 [1,C] Member of the Board of Directors of ARCA since 2001. He has held positions in finance and as Chief Executive Officer in several companies in Monterrey. Chief Executive Officer and Chairman of the Board of Directors of his own companies for the past 18 years. Member of the Board of Seguros Banorte Generali, Afore Solida Banorte, Pensiones Banorte and Grupo Lamosa.

**Luis Lauro Gonzalez Barragan,** Vice Chairman, 50 [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 Trustees of Universidad de Monterrey. Administrative Director and owner of San Nicolas Automotriz. Former Board Member of Procor and CBI Seguros.

**Guillermo Alvelais Fernandez,** Director, 57 [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 and alternate Member of the Board of Grupo Financiero Sofimex.

**Luis Arizpe Jimenez,** Director, 42 [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. Consultant of Planeacion Estrategica y Financiera, Vice President and Treasurer of Cruz Roja Mexicana (Delegación Saltillo).

**Jose Joaquin Arizpe y de la Maza,** Director, 83 [1,P] Member of the Board of Directors of ARCA since 2001. Member of the Board and Vice President of Compania Hotelera del Norte, Member of the Board of Grupo Textil El Carmen, Hielo de Saltillo and Inversiones del Norte. Regional Board Member of BBVA Bancomer, HSBC and Telefonos de Mexico. Former Vice Chairman and Member of the Board of Empresas El Carmen and Administrative Director of Fabricas El Carmen.

**Manuel L. Barragan Morales,** Director, 53 [1,C] Member of the Board of Directors of ARCA since 2001. Chairman of the Board of Index. Former Board Member of Procor, Banco Regional de Monterrey and Papas y Fritos Monterrey.

**Eduardo J. Barragan Villarreal,** Director, 68 [1] Member of the Board of Directors of ARCA since 2001. Former Chief Technology Officer and Plant Manager at Bebidas Mundiales. Member of the Board of Promocion Rural and Arte A.C. Chairman of the Board of Trustees of Pro-Cultura de Monterrey, Fideicomiso de Vida Silvestre de Nuevo Leon and Impulsora de Eventos Culturales.

**Fernando Barragan Villarreal,** Director, 73 [1,P] Member of the Board of Directors of ARCA since 2001. Former Chief Executive Officer, Administrative Director and alternate Board Member of Procor. Former Member of the Board of Estructuras de Acero, Banregio and Financiera General de Monterrey. Has held several positions at Bebidas Mundiales, S.A., including that of Managing Director and Manager of Production, Maintenance and Quality Control.

**Alfonso J. Barragan Treviño,** Director, 46 [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. Member of the Board of Index and Fundacion Mexicana para el Desarrollo Rural. Former Member of the Board of Procor and Secretary of the Board of Directors of Eon Corporation and Eon Mexico.

**Rafael Garza-Castillon Vallina,** Director, 47 [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,** Director, 47 [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,** Director, 29 [1,P] Member of the Board of Directors of ARCA since 2001. Chief Executive Officer of San Barr y Compania 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 and Grupo Index. 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,** Director, 56 [1,C] Member of the Board of Directors of ARCA since 2001. Member of the Board of Axis, Fundacion Mascarenas and Fundacion Rosario Campos. Member of the Board of Directors of Argos from 1998 to 2001. Former President of El Paso Museum of Arts.


**Enough for everyone...** 3-liter Coca-Cola was introduced in institutional channels with great success.

# Board of Directors continued

**Juan B. Maldonado Quiroga,** Independent Director, 47 [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,** Independent Director, 43 [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,** Independent Director, 71 [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 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,** Independent Director, 74 [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 Bukenhofer,** Independent Director, 57 [2,C] 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 Bursátiles, 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,** Secretary, 38 Director of Corporate Planning and Secretary of the Board of ARCA since 2001. Former Secretary of the Board of Directors at several Alfa companies.

**Carlos Arreola Enriquez,** Examiner, 52 He has been ARCA's Examiner 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 currently is in charge of internal audit in several publicly-held companies in Mexico and abroad, as well as Examiner to several of them.

Board Members:

[1] Shareholder / Related
[2] Independent

Committees:

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


**Intense flavor...** For those who love intense flavor and extreme sports, we launched Beat in various presentations.

Financial Review Contents

# Management's Discussion and Analysis of Financial Results

## SALES

Net sales rose 1.9% in 2003, reflecting a 1.5% increase in sales volume, driven mainly by the flavored soft drink segment, which grew 3.5%, and single serve water, which expanded 21.7% in 2003. The cola sales volume remained practically unchanged during the year.

The average price per unit case grew 0.4% in 2003, largely because the price of 12oz. and half-liter returnable glass presentations increased by 50 Mexican cents to Ps 3.0 and Ps 4.0, respectively. The price of other presentations fell in some regions, while the upsize of some presentations necessarily implied a lower price per ounce.

## COST OF SALES

The 2003 accumulated cost of sales was Ps 6,681, 7.1% above the Ps 6,237 posted in 2002. Gross margin for year 2003 was 52.1%, 2.3 percentage points below the previous year. This decline largely reflects a significant increase in the price of some raw materials: during 2003, the price of sugar rose 7.3% in real terms, while the price of PET preforms grew 17%. Furthermore, the percent of non-returnable products in the Company's sales mix rose considerably.

## OPERATING EXPENSES

As a result of the Company's program to capitalize on synergies and reduce costs, selling expenses (excluding non-recurring expenses) fell 3.5% year-over-year, from Ps 3,682 million in 2002 to Ps 3,553 million in 2003. Administrative expenses, excluding non-recurring expenses, declined 3.1%, from Ps 1,206 million in 2002 to Ps 1,169 million in 2003.

## OPERATING INCOME AND EBITDA

Operating income, excluding non-recurring expenses, fell 0.5%, from Ps 2,549 million in 2002 to Ps 2,535 million in 2003. Operating margin declined 0.4 percentage points, from 18.6% to 18.2%.

EBITDA, excluding non-recurring expenses decreased 0.7%, from Ps 3,349 million in 2002 to Ps 3,324 million in 2003.

## NON-RECURRING EXPENSES

Non-recurring expenses totaled Ps 297 million in 2003, largely due to a reduction in the workforce of more than 2,140, or 12% of ARCA's total.

## INTEGRAL COST OF FINANCING

In 2003, the integral financing cost was Ps 160 million, compared to a cost of Ps 147 million in 2002. The difference mainly reflects an extraordinary charge of Ps 79 million in 2003, because the cancellation in advance of a Cross Currency Swap, that had been used to hedge foreign exchange and interest risks since 2002, implied the prepayment of coupons for 2004. The refinancing of debt at lower rates in 2004 should partially offset the negative impact of this extraordinary charge.

## OTHER EXPENSES

Other expenses increased from Ps 44 million in 2002 to Ps 183 million in 2003, largely because of a charge of Ps 217 million for the asset write-offs in relation to the closing of production lines at some bottling plants as part of the synergies and cost reduction plan. In addition, the Company reported an extraordinary income of Ps 70 million in 2002 for the refund of compensatory quotas that had been paid to import high fructose corn syrup during 1999, 2000 and 2001.

## PROVISION FOR INCOME TAXES AND EMPLOYEES' PROFIT SHARING

The provision for income taxes and employees' profit sharing for the year was Ps 895 million, 6.9% below 2002. This heading includes provisions for income taxes of Ps 783 million and employees' profit sharing of Ps 207 million, as well as a credit of Ps 96 million for deferred income taxes. (See Note 14 of Audited Financial Statements.)

## NET INCOME

Net income totaled Ps 1,005 million, or Ps 1.25 per share, in 2003, a decline of 19.9% compared to the Ps 1,255 million, or Ps 1.56 per share, posted in 2002.

## CASH ON HAND AND FREE CASH FLOW

The balance of cash as of December 31, 2003 was Ps 1,093 million, compared to Ps 1,437 million at year end 2002. During 2003, the Company generated free cash flow of Ps 1,835 million. Investment in working capital declined during the year, reflecting a reduced need for returnable bottles and the transfer of inventories of PET preforms and bottles to AMCOR.

The main uses of cash were: the payment of dividends amounting to Ps 1,061 million, a Ps 615 million reduction in debt and capital expenditures of Ps 550 million.

## CAPITAL EXPENDITURES

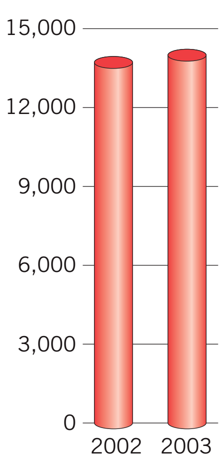
Capital expenditures (excluding revenues from the sale of blowing assets to AMCOR) totaled Ps 550 million for the year of 2003, and were mainly used to renew transportation equipment; install new refrigerators, build two sugar clarifying plants and an NR production line; and purchase presale equipment and information systems, among other investments.

## DEBT

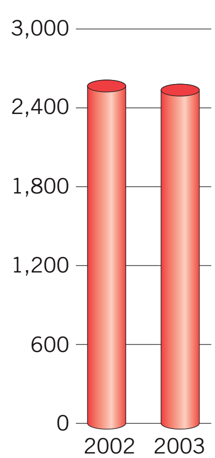
During 2003, Grupo ARCA's total debt was refinanced, by issuing Ps 1,500 million in peso bonds (*certificados bursátiles*) in two tranches: the first for Ps 1,000 million with a variable interest rate of CETES plus 88 basis points and a 5-year maturity, and the second for Ps 500 million at a fixed interest rate of 8.80% over seven years. Both Standard & Poor's and Fitch Ratings gave these bond issues AAA rating. The Company decided to hedge the interest rate risk and convert 100% of these issues to a fixed rate, with the first issue becoming Ps 500 million at 9.10% as of the third coupon reset date (October 2004) and a further Ps 500 million at 8.81% as of the second coupon reset date (April 2004).

In December 2003, ARCA's majority shareholders sold 35 million shares through the Mexican Stock Exchange, thereby raising its public float by 70%. This action, combined with the added liquidity resulting from the Company's repurchase fund, returned ARCA to the sample of companies that make up the Mexican Stock Exchange Index in February 2004.

**Sales**
(millions of Mexican Pesos)

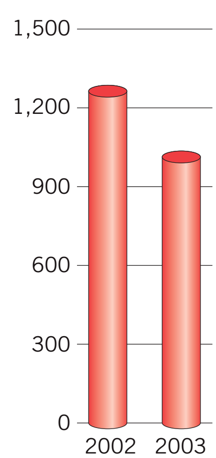



**Operating Income***
(millions of Mexican Pesos)

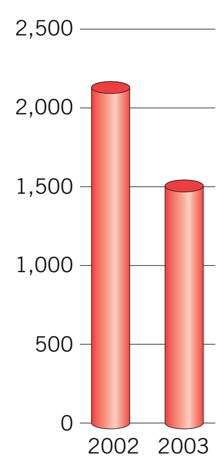



*excludes non-recurring expenses

**Net Income**
(millions of Mexican Pesos)




**Total Debt**
(millions of Mexican Pesos)



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, 2003)

| December 31, | **2003** | 2002 | 2001[1] | 2000[1] | 1999[1] |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | **1,093** | 1,437 | 1,068 | 1,623 | 859 |
| Accounts receivable | **432** | 387 | 384 | 413 | 348 |
| Other accounts receivable | **252** | 338 | 170 | 156 | 179 |
| Inventories | **1,057** | 1,184 | 1,265 | 1,320 | 1,497 |
| Prepaid expenses | **21** | 42 | 12 | 7 | 7 |
| Total current assets | **2,855** | 3,389 | 2,899 | 3,519 | 2,888 |
| Investments in shares | **97** | 85 | 78 | 60 | 70 |
| Restricted fixed assets | **–** | – | – | 506 | 508 |
| Property, plant and equipment, net | **7,099** | 7,857 | 8,179 | 7,886 | 7,801 |
| Goodwill, net | **2,045** | 2,171 | 2,299 | 1,165 | 1,231 |
| Other accounts receivable – long-term | **346** | – | – | – | – |
| Other assets | **116** | 64 | 70 | 86 | 90 |
| **Total assets** | **12,558** | 13,565 | 13,525 | 13,223 | 12,589 |
| **Liabilities and Stockholders' Equity** | | | | | |
| Current liabilities: | | | | | |
| Bank loans | **–** | 205 | 172 | 128 | 377 |
| Suppliers | **383** | 427 | 398 | 479 | 465 |
| Other accounts payable and accrued expenses | **589** | 711 | 972 | 823 | 468 |
| Total current liabilities | **972** | 1,343 | 1,542 | 1,430 | 1,310 |
| Bank loans | **1,500** | 1,910 | 2,129 | 594 | 725 |
| Pension plans and seniority premiums | **148** | 178 | 195 | 130 | 133 |
| Deferred income tax and other long-term liabilities | **1,277** | 1,372 | 1,511 | 1,611 | 1,737 |
| Total liabilities | **3,896** | 4,803 | 5,376 | 3,765 | 3,905 |
| Stockholders' equity: | | | | | |
| Capital stock | **4,004** | 4,004 | 4,004 | 1,907 | 1,907 |
| Reserve for repurchase of shares | **–** | – | – | 128 | 30 |
| Premium on issuance of capital stock | **571** | 559 | 593 | 2,068 | 2,073 |
| Retained earnings | **5,919** | 5,981 | 5,304 | 6,679 | 5,807 |
| Deficit on restatement of capital | **(1,833)** | (1,783) | (1,763) | (1,325) | (1,132) |
| Total stockholders' equity (majority interest) | **8,661** | 8,762 | 8,139 | 9,458 | 8,684 |
| Minority interest | **0** | 0 | 10 | – | – |
| **Total liabilities and stockholders' equity** | **12,558** | 13,565 | 13,525 | 13,223 | 12,589 |

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, 1999, 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, 2003)

| December 31, | **2003** | 2002 | 2001[1] | 2000[1] | 1999[1] |
|---|---|---|---|---|---|
| Sales volume | **416.9** | 410.6 | 406.3 | 426.0 | 420.0 |
| Net sales | **13,938** | 13,674 | 14,398 | 14,107 | 12,744 |
| Cost of sales | **(6,681)** | (6,237) | (6,683) | (6,980) | (6,935) |
| Gross profit | **7,257** | 7,437 | 7,715 | 7,128 | 5,809 |
| Selling expenses | **(3,553)** | (3,682) | (3,608) | (3,154) | (2,886) |
| Administrative expenses | **(1,169)** | (1,206) | (1,211) | (1,096) | (1,045) |
| Operating income (excludes non-recurring expenses) | **2,535** | 2,549 | 2,895 | 2,877 | 1,879 |
| Non-recurring expenses[2] | **(297)** | (144) | (61) | – | – |
| | **2,238** | 2,405 | 2,835 | 2,877 | 1,879 |
| Comprehensive financing cost: | | | | | |
| Interest income (expense), net | **(192)** | (119) | 6 | (127) | (77) |
| Exchange gain (loss), net | **9** | (120) | (24) | 4 | (15) |
| Monetary position gain (loss) | **24** | 93 | 4 | 8 | 86 |
| | **(160)** | (147) | (14) | (115) | (6) |
| | **2,078** | 2,258 | 2,820 | 2,763 | 1,873 |
| Other income (expense)[2] | **(183)** | (44) | (130) | (23) | 24 |
| Income before the following provisions: | **1,895** | 2,213 | 2,690 | 2,740 | 1,897 |
| Provisions for: | | | | | |
| Income asset tax | **(688)** | (704) | (1,018) | (894) | (667) |
| Employees' profit sharing | **(207)** | (258) | (334) | (302) | (206) |
| Total provisions | **(895)** | (962) | (1,351) | (1,196) | (874) |
| Equity earnings of affiliates and minority interest | **5** | 3 | (16) | 8 | 9 |
| Consolidated net income | **1,005** | 1,255 | 1,322 | 1,552 | 1,033 |
| Number of shares | **806** | 806 | 806 | 806 | 806 |
| Depreciation | **664** | 671 | 677 | 648 | 627 |
| Amortization | **124** | 129 | 77 | 67 | 67 |
| EBITDA | **3,324** | 3,349 | 3,649 | 3,592 | 2,572 |
| CAPEX | **550** | 510 | 594 | 731 | 825 |

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, 1999, 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).

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

# Management's Responsibility for Financial Information

Management is responsible for preparing the financial statements and all the financial information contained in this Report. This responsibility includes maintaining the integrity and objectivity of financial records, as well as preparing the financial statements in accordance with Mexican generally accepted accounting principles.

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

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

The financial statements were audited by PricewaterhouseCoopers, S.C. a firm of independent public accountants. Their audit was carried out in accordance with Mexican generally accepted accounting principles and included the Company's internal control structure. The external auditors' report is included in this Report.

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

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

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

Francisco Garza Egloff
Chief Executive Officer

Adrian Wong Boren
Chief Financial Officer

# Report of Independent Accountants

PRICEWATERHOUSECOOPERS

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

Monterrey, Mexico, February 23, 2004

We have audited the consolidated balance sheets of Embotelladoras Arca, S. A. de C. V. and subsidiaries as of December 31, 2003 and 2002, 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 in Mexico 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.

As of February 25, 2003, the Board of Directors approved a streamlining plan for their facilities and distribution centers, a savings plan in centralized purchases and a corporate and operational reorganization plan, all of which are an integral part of an improvement and efficiency program described in Notes 1 and 2 to these financial statements.

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, 2003 and 2002, and the consolidated results of their operations, their changes in stockholders' equity and their changes in financial position for the years then ended, in conformity with accounting principles generally accepted.

PricewaterhouseCoopers

C.P. José Antonio Quesada P.

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

# Consolidated Balance Sheets

(Notes 1, 2 and 3)
(In thousands of Mexican Pesos in purchasing power of December 31, 2003)

| December 31, | **2003** | 2002 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **Ps 1,093,463** | Ps 1,437,345 |
| Trade accounts receivable (less allowance for doubtful accounts of Ps 43,505 in 2003 and Ps 38,467 in 2002) | **431,712** | 387,350 |
| Other accounts receivable | **251,631** | 338,223 |
| Inventories (Nota 5) | **1,056,804** | 1,184,390 |
| Prepaid expenses | **21,177** | 41,910 |
| Total current assets | **2,854,787** | 3,389,218 |
| Investment in shares (Note 6) | **97,489** | 84,837 |
| Property, plant and equipment, net (Note 7) | **7,098,684** | 7,857,034 |
| Goodwill, net (Note 8) | **2,044,515** | 2,170,734 |
| Other accounts receivable long-term (Note 4) | **345,621** | – |
| Other assets | **116,489** | 63,579 |
| **Total assets** | **Ps 12,557,585** | Ps 13,565,402 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Suppliers | **Ps 382,847** | Ps 426,850 |
| Current portion of long-term debt (Note 9) | **–** | 204,839 |
| Sundry creditors and accrued expenses | **290,556** | 372,701 |
| Employees' profit sharing payable (Note 14) | **207,549** | 253,264 |
| Income tax payable (Nota 14) | **90,609** | 84,851 |
| Total current liabilites: | **971,561** | 1,342,505 |
| Long-term debt (Note 9) | **1,500,000** | 1,910,401 |
| Labor obligations (Note 10) | **147,854** | 178,265 |
| Deferred income tax liability (Note 14) | **1,276,752** | 1,372,254 |
| Total liabilities | **3,896,167** | 4,803,425 |
| Contingencies (Note 11) | | |
| Subsequent event (Note 20) | | |
| Stockholders' equity (Note 12): | | |
| Contributed capital stock | **4,003,879** | 4,003,879 |
| Additional paid in capital | **571,456** | 559,367 |
| Retained earnings | **5,916,294** | 5,981,302 |
| Cumulative translation adjustment of foreign subsidiary | **5,880** | 4,596 |
| Stockholders' reduction from labor obligations | **(3,360)** | (4,489) |
| Deficit from restatement | **(1,832,857)** | (1,782,889) |
| Total majority interest | **8,661,292** | 8,761,766 |
| Minority interest | **126** | 211 |
| Total stockholders' equity | **8,661,418** | 8,761,977 |
| **Total liabilities and stockholders' equity** | **Ps 12,557,585** | Ps 13,565,402 |

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

Ing. Francisco Garza E.
Chief Executive Officer

Dr. Adrián Wong B.
Chief Financial Officer

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

# Consolidated Statements of Income

(Notes 1, 2 and 3)
(In thousands of Mexican Pesos in purchasing power as of December 31, 2003)

| December 31, | **2003** | 2002 |
|---|---|---|
| Net sales | **Ps 13,937,990** | Ps 13,673,967 |
| Cost of sales | **(6,725,293)** | (6,237,293) |
| Gross margin | **7,212,697** | 7,436,674 |
| Administrative expenses | **(1,343,886)** | (1,349,708) |
| Selling expenses | **(3,627,192)** | (3,682,460) |
| | **(4,971,078)** | (5,032,168) |
| Operating income | **2,241,619** | 2,404,506 |
| Financing cost: | | |
| Interest expense net | **(192,422)** | (119,251) |
| Exchange gain (loss), net | **8,662** | (120,381) |
| Gain from monetary position | **23,884** | 92,709 |
| | **(159,876)** | (146,923) |
| | **2,081,743** | 2,257,583 |
| Other income (expense), net (Note 13) | **30,618** | (44,138) |
| Income before provisions for income tax and employees' profit sharing | **2,112,361** | 2,213,445 |
| Provisions for (Note 14): | | |
| Income tax | **(687,871)** | (703,771) |
| Employees' profit sharing | **(207,593)** | (257,847) |
| | **(895,464)** | (961,618) |
| Income before equity in income of affiliates | **1,216,897** | 1,251,827 |
| Equity in income of affiliates | **5,186** | 2,861 |
| Income before extraordinary item and minority interest | **1,222,083** | 1,254,688 |
| Special item (Note 2) | **(216,942)** | – |
| Minority interest | **(19)** | (27) |
| Net income | **Ps 1,005,122** | Ps 1,254,661 |
| Net income per share | **Ps 1.25** | Ps 1.56 |
| Weighted average shares outstanding (thousands) | **806,020** | 806,020 |

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

Ing. Francisco Garza E.
Chief Executive Officer

Dr. Adrián 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)
(In thousands of Mexican Pesos in purchasing power as of December 31, 2003)

| | Capital stock | Additional paid in capital | Retained earnings |
|---|---|---|---|
| Balance at December 31, 2001 | Ps 4,003,879 | Ps 593,444 | Ps 5,301,410 |
| **Changes in 2002:** | | | |
| Dividends declared | | | (564,910) |
| Charged off of goodwill derived from the acquisition of Embotelladoras Argos, S. A. | | (9,077) | |
| Reduction in minority interest derived from the shares' acquisition of Embotelladoras Argos, S. A. | | | |
| Increase of shares due to exchange offer related to the acquisition of Embotelladoras Argos, S. A. (See Note 2) | | | (9,859) |
| Charge off of goodwill derived from the acquisition of Embotelladoras Argos, S. A. | | (25,000) | |
| Increase in minority interest | | | |
| Comprehensive income (Note 12) | | | 1,254,661 |
| Balance at December 31, 2002 | 4,003,879 | 559,367 | 5,981,302 |
| **Changes in 2003:** | | | |
| Dividends declared | | | **(1,061,245)** |
| Acquisition of own shares | | **12,089** | **(8,885)** |
| Income tax derived from the repurchase of own shares | | | |
| Increase in minority interest | | | |
| Comprehensive income | | | **1,005,122** |
| Balance at December 31, 2003 (Note 12) | **Ps 4,003,879** | **Ps 571,456** | **Ps 5,916,294** |

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

Ing. Francisco Garza E.
Chief Executive Officer

Dr. Adrián 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 3,104 | (Ps 27,768) | (Ps 1,735,370) | Ps 8,138,699 | Ps 10,187 | Ps 8,148,886 |
| | | | (564,910) | | (564,910) |
| | | | (9,077) | | (9,077) |
| | | | | (10,004) | (10,004) |
| | | | (9,859) | | (9,859) |
| | | | (25,000) | | (25,000) |
| | | | | 28 | 28 |
| 1,492 | 23,279 | (47,519) | 1,231,913 | | 1,231,913 |
| 4,596 | (4,489) | (1,782,889) | 8,761,766 | 211 | 8,761,977 |
| | | | **(1,061,245)** | | **(1,061,245)** |
| | | | **3,204** | | **3,204** |
| | | | | **(85)** | **(85)** |
| **1,284** | **1,129** | **(49,968)** | **957,567** | | **957,567** |
| **Ps 5,880** | **(Ps 3,360)** | **(Ps 1,832,857)** | **Ps 8,661,292** | **Ps 126** | **Ps 8,661,418** |

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, 2003)

| December 31, | **2003** | 2002 |
|---|---|---|
| **Operating activities** | | |
| Consolidated net income before extraordinary item and minority interest | **Ps 965,250** | Ps 1,254,688 |
| Items not affecting resources: | | |
| Equity in income of affiliates | **(5,186)** | (2,861) |
| Allowance for doubtful accounts | **5,038** | 13,054 |
| Depreciation | **663,560** | 671,408 |
| Allowance for disposal of fixed assets | **–** | 160,003 |
| Labor obligations | **(13,497)** | 6,257 |
| Goodwill amortization | **124,470** | 128,536 |
| Deferred income tax | **(99,035)** | (125,852) |
| Minority interest | **(19)** | (27) |
| Changes in operating assets and liabilities: | | |
| Trade and other accounts receivable | **78,983** | (184,631) |
| Inventories | **70,151** | 29,275 |
| Prepaid expenses and other assets | **(51,443)** | (23,050) |
| Suppliers | **(44,003)** | 28,461 |
| Other accounts payable and accrued expenses | **(120,438)** | (273,220) |
| Resources proivded by operating activities before extraordinary item | **2,051,738** | 1,682,041 |
| Special item | **(216,942)** | – |
| Resources provided by operating activities | **1,834,796** | 1,682,041 |
| **Financing activities:** | | |
| Long term debt | **(615,240)** | (185,660) |
| Dividends declared | **(1,061,245)** | (564,910) |
| Acquisition of own shares | **3,204** | (9,859) |
| Resources (used in) provided by financing activities | **(1,673,281)** | (760,429) |
| **Investing activities:** | | |
| Accounts receivable by financial lease of machinery and equipment (Note 19) | **(387,411)** | – |
| Net assets acquired from acquisition of Embotelladoras Argos, S.A. | **–** | (9,077) |
| Disposal of fixed assets in financial lease (Note 19) | **430,942** | – |
| Property, plan and equipment, net | **(550,212)** | (509,671) |
| Reduction on minority interest derived from the acquisition of shares Embotelladoras Argos, S.A. | **–** | (10,004) |
| Income tax derived from the acquisition of own repurchased shares | **–** | (25,000) |
| Cumulative translation adjustment of foreign subsidiary | **1,284** | 1,492 |
| Resources used in investing activities | **(505,397)** | (552,260) |
| Increase in cash and cash equivalents | **(343,882)** | 369,352 |
| Cash and cash equivalents at beginning of year | **1,437,345** | 1,067,993 |
| Cash and cash equivalents at end of year | **Ps 1,093,463** | Ps 1,437,345 |

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

Ing. Francisco Garza E.
Chief Executive Officer

Dr. Adrián Wong B.
Chief Financial Officer

# Notes to the Consolidated Financial Statements as of and for the years ended December 31, 2003 and 2002

(In thousands of Mexican Pesos in purchasing power as of December 31, 2003, except the amounts of shares and foreign currency)

## 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 bottling agreements 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. In order to supply for its own productive needs, ARCA also manufactures plastic screw-tops, metal crowns, plastic boxes and PET bottles. See Note 2.

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 67 distribution centers (20 and 78 in 2002).

   As part of this reorganization, ARCA reduced its legal entities from 39 in 2002 to 24 in 2003. 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).

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

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.
Compañía Topo Chico, S. A. de C. V.
Embotelladora Tamaulipeca, S. A. de C. V.
Sello Tapa, S. A. de C. V.
Interex, Corp.
Embotelladora El Carmen, S. A. de C. V.
Embotelladoras del Norte de Coahuila, S. A. de C. V.
Compañía Embotelladora del Pacífico, S. A. de C. V.
Compañía Embotelladora de Baja California Sur, S. A. de C. V.
Industrial de Plásticos Arma, S. A. de C. V.
Embotelladora de la Frontera, S. A. de C. V.
Compañía Embotelladora de Nueva Obregón, S. A. de C. V.
Embotelladora de Chihuahua, S. A. de C. V.
Compañía Embotelladora de Culiacán, S. A. de C. V.
Embotelladora de Mexicali, S. A. de C. V.
Embotelladora Pitic, S. A. de C. V.
Productora de Hielo del Norte, S. A. de C. V.
Distribuidora de Bebidas Arca, S. A. de C. V.

**Holding, real estate or service companies**

Publicidad Eficaz, S. A. de C. V.
Publicidad y Servicios Arca, S. A. de C. V.
Arca Corporativo, S. A. de C. V.
Desarrolladora Arca, S. A. de C. V.
Embotelladoras Argos, S. A. (99.68%)
Cuncalín, S. A. de C. V. (99.68%)

2. In order to reduce costs and achieve a more simple and functional organization, the Direction of Operations was created; this Direction substituted two Operation Division Directions. Companies that geographically allow centralizing the productive and administrative control were grouped into six Zones. In this regard, six general management and six controlling positions were created, substituting plant managers and controllers that had managed the companies up to that moment. Strategic Administrative and Human Resources' roles were also centralized in a single corporate office.
3. 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 Ps 1,500,000, from a program totalling Ps 5,000,000 (See Note 9). With the resources obtained from this issuance, ARCA paid, in advance, the syndicated loan amounting US$180,000 maturing in November 2004.
4. Also in November, 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.
5. ARCA introduced new products and presentations, principally with regard to disposable bottles, resulting in a 1.5% increase in sales in relation to the previous year. This increase was supported by the installation of approximately 18 thousand additional refrigerators, covering 80% of the sales points, additionally to the installation of 2,400 vending machines, representing a 40% increase at the end of 2002.
6. The "SAP" System was implemented in most of the manufacturing companies. At the date of issuance of the financial statements, this process is in its last stage. This system will allow ARCA to integrate multiple tasks, including accounting, finance, treasury, purchase, product manufacturing and storage, among others.
7. During the first quarter of 2004, ARCA plans to start operations in two sugar-clarifying plants with a high manufacturing capacity, which are expected to generate important savings in the following years.

Derived from the aforementioned, and as part of the operational reorganization, during 2003, ARCA distributed non-recurring expenses (severance payments) in the amount of Ps 296,649, principally due to the 12% decrease of its labor force.

As part of the plans discussed in this Note, as well as in accordance with dispositions described in Note 3 1., ARCA recorded, during 2003, charges to income amounting Ps 216,942 shown in the statement of income as a special item.

## 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, 2003 as follows:

- The financial statements of Mexican holding companies and subsidiaries have been restated to pesos as of December 31, 2003 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 Mexico (the Central Bank of Mexico).
- The financial statements of the foreign subsidiary have been restated to pesos as of December 31, 2003, by applying to the year-end foreign currency balances the General Consumer Price Index (GCPI) of the foreign country in which the subsidiary operates and by applying the exchange rate as of December 31, 2002, as described in e.

The factors derived from NCPI used to restate prior years financial statements were 3.98% and 5.70% for 2003 and 2002 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. The monetary gain (loss) recognized on the net monetary position of foreign subsidiaries is based on the inflation rate of the respective country, as measured by the relevant GCPI factor, prior to the translation to Mexican pesos.

***ii) Deficit from restatement***

This component represents the difference between the replacement cost values of certain inventories and, until December 31, 1996, fixed 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, 2003.

***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 restated to recognize the effects of inflation and translated to Mexican pesos of constant purchasing power as of December 31, 2003, as follows:

- Financial statements are restated to year-end constant local currencies following the provisions of Statement B-10, applying the GCPI of the foreign country, which reflects the change in purchasing power of the local currency in which the foreign subsidiary reports its operations.
- The translation effects are recorded as part of the stockholders' equity in the cumulative translation adjustment of foreign subsidiaries.

**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. Goodwill is restated by applying inflation factors derived from the NCPI. The carrying value of goodwill is evaluated periodically in relation to the operating performance and future undiscounted cash flows of the underlying businesses.

**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.

From January 1, 2003 onwards, ARCA adopted the standards contained in Statement C-8 "Intangible Assets" issued by the Accounting Principles Commission (CPC) of the Mexican Institute of Public Accountants (IMPC). These standards require that intangible assets be recognized in the balance sheet as long as they are identifiable, provide expected future economic benefits and such benefits are under control. Furthermore, this Statement establishes that intangible assets with an indefinite useful life shall not be amortized and those with a definite useful life shall be amortized systematically, based on the best estimate of their useful life, determined in accordance with the expectation of future economic benefits. These assets are subject to an annual evaluation with respect to the value of their recoverability in order to accurately establish the existence of loss from impairment in the value of such assets. At December 31, 2003, the adoption of this statement had no material effect on the financial situation of the Company and intangible assets did not require any reserve for impairment.

**l. Long-lived assets**

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 Ps 216,942. 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. See Note 2.

**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 past service is amortized over the average period required for workers to reach their retirement age.

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, in accordance to the Statement D-4, "Accounting Treatment of Income Tax, Asset Tax and Statutory Employees' Profit Sharing" issued by the MIPA; which consists of recognizing deferred tax on all temporary differences between the book and tax values of assets and liabilities.

**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 for the purpose of reducing its exposure to adverse fluctuations in foreign exchange rates.

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.

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 has 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 sale 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, 2003 and 2002, 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, and other accounts receivable.

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, 2003 and 2002, approximately 88% and 87%, respectively, of ARCA's net sales, consisted of products sold under Coca Cola trademarks. ARCA manufactures and sells these products pursuant to bottling agreement with TCCC. Each bottling agreement provides for a date of expiration that fluctuates between 2008 and 2013.

During ARCA's 77-year business relationship, TCCC has never failed to renew any of the bottling agreements. Management believes that TCCC will continue to renew the bottling agreements upon their respective expiration dates, but can give no assurance that all of the bottling agreements will be renewed in the future. If TCCC fails to renew any of the existing bottling agreements covering a significant portion of the business upon their expiration, ARCA's business and results of operations could be adversely affected.

Additionally, under the bottling agreements, 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, | **2003** | 2002 |
|---|---|---|
| Net income | **Ps 1,005,122** | Ps 1,254,661 |
| Cumulative translation adjustment of foreign subsidiary | **1,284** | 1,492 |
| Stockholders' equity reduction from labor obligations | **1,129** | 23,279 |
| Loss from holding non-monetary assets | **(49,968)** | (47,519) |
| Comprehensive income, net | **Ps 957,567** | Ps 1,231,913 |

**y. New accounting Statements**

In 2003, the Mexican Institute of Public Accountants issued new Statement C-12, "Financial instruments with characteristics of liabilities, capital or both", which highlights the differences between liabilities and capital from the viewpoint of the issuer, as a basis for identifying, classifying and accounting for the liability and capital components of combined financial instruments at the date of issuance.

The new Statement establishes the methodology for separating the liabilities and capital components from the proceeds of the issuance of combined financial instruments. That methodology is based on the residual nature of stockholders' equity and avoids the use of fair values affecting stockholders' equity in initial transactions. Additionally, it establishes that beginning on January 1, 2004, the initial costs incurred in connection with the issuance of combined instruments should be assigned to liabilities and stockholders' equity in proportion to the amounts of the components recognized as liabilities and stockholders equity; that the profits and losses related to financial instrument components classified as liabilities should be recorded in comprehensive financing cost and that distributions to owners of financial instrument components classified as capital should be charged directly to a stockholders' equity account other than the net income for the year.

Although this Statement became effective on January 1, 2004, there is no requirement to restate information of prior periods or recognize an initial effect of adopting in the income for the year it is adopted, in accordance with the transitory provisions of the Statement. ARCA estimates that the adoption of this Statement is not to have an impact on its financial statements.

**z. Financial lease** (Note 19)

Financial lease investment at beginning of 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 financial income to be accrued, which is applied to income so as to produce a yield rate over unpaid balances.

The discount rate used by the Company to determine the present value is 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

At December 31, 2003, other short and long-term accounts receivable are integrated as follows:

| | |
|---|---|
| Short-term accounts receivable: | |
| Amcor (1) | Ps 50,921 |
| Sundry Debtors (minor items of Ps 15,000) | 200,710 |
| | Ps 251,631 |
| Long-term accounts receivable: | |
| Amcor (1) | Ps 328,821 |
| TV Azteca Noreste, S. A. de C. V. (2) | 16,800 |
| | Ps 345,621 |

(1) Total operation amounts to Ps 379,742 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, | **2003** | 2002 |
|---|---|---|
| Raw materials | **Ps 180,755** | Ps 243,062 |
| Finished products | **214,852** | 162,986 |
| Materials and spare parts | **154,556** | 156,147 |
| Bottles and cases | **470,954** | 589,248 |
| Advances to suppliers and other | **35,687** | 32,947 |
| | **Ps 1,056,804** | Ps 1,184,390 |

## NOTE 6 - INVESTMENT IN SHARES

Investment in shares consist of the following:

| | % stock ownership | December 31, 2003 | 2002 |
|---|---|---|---|
| Industria Envasadora de Querétaro, S. A. de C. V. (1) | 23.60% | **Ps 89,723** | Ps 81,330 |
| Promotora Mexicana de Embotelladoras, S. A. de C. V. (1) | 20.00% | **7,760** | 3,500 |
| Servicios Integrados para la Industria Refresquera, S. A. de C. V. (2) | 0.55% | **6** | 7 |
| | | **Ps 97,489** | Ps 84,837 |

(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 1,260,698** | Ps 1,232,787 |
| Buildings | **2,511,105** | 2,500,137 |
| Machinery and equipment | **4,674,536** | 5,870,080 |
| Transportation equipment | **2,601,565** | 2,642,588 |
| Refrigerators and sales equipment | **1,432,447** | 1,341,365 |
| Computer equipment | **258,079** | 236,735 |
| Office equipment | **312,224** | 224,199 |
| Construction in progress and other | **184,652** | 243,225 |
| | **13,235,306** | 14,291,116 |
| Accumulated depreciation | **(6,136,622)** | (6,434,082) |
| | **Ps 7,098,684** | Ps 7,857,034 |

Depreciation charged to income in 2003 and 2002, was of Ps 664,159 and Ps 671,408, 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 216,942. This balance is recorded as a special item within income for the year. See Note 2.

## NOTE 8 – GOODWILL

The goodwill is comprised as follows:

| December 31, | 2003 | 2002 |
|---|---|---|
| Goodwill | **Ps 2,518,185** | Ps 2,536,188 |
| Accumulated amortization | **(473,670)** | (365,454) |
| | **Ps 2,044,515** | Ps 2,170,734 |

Amortization charged to income in 2003 and 2002, amounted to Ps 124,470 and Ps 128,536, respectively.

## NOTE 9 – SHORT-TERM AND LONG-TERM DEBT

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

| December 31, | **2003** | 2002 |
|---|---|---|
| Stock certificates | **Ps 1,500,000** | |
| Syndicated loan | – | Ps 1,856,826 |
| Secured loans | – | 198,382 |
| Collateral loans | – | 44,568 |
| Financial leasing | – | 15,464 |
| Total liabilities from bank loans | **1,500,000** | 2,115,240 |
| Short-term debt | | |
| Current portion of long-term debt | – | (204,839) |
| Long-term debt | **Ps 1,500,000** | Ps 1,910,401 |

Stock certificates were issued for a total of Ps 1,500,000, on November 7, 2003. These certificates correspond to the first part of a deposit program for a total of Ps 5,000,000. The deposit consisted in an issuance in the amount of Ps 1,000,000 in a 5-year term with a 182-day variable CETES interest rate plus 88 base points, and another issuance for an amount of Ps 500,000 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 Ps 8,365, which were capitalized and amortized in a five-year period. At December 31, 2003, the amortization of those expenses amounted Ps 139.

As of December 31, 2003, ARCA has unused lines of credit for Ps 4,820,000 and US$12,500 (Ps 730,955 and US$18,229 as of December 31, 2002). ARCA does not pay any commitment fee over the unused amounts.

## NOTE 10 – LABOR OBLIGATIONS

ARCA has several employees' benefit plans (see Note 3). 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 generally, tax deductible. As of December 31, 2003 and 2002, 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, 2003 and 2002 relative to the balances shown in the consolidated balance sheet.

| December 31, | **2003** | 2002 |
|---|---|---|
| **Change in benefit obligation:** | | |
| Benefit obligation at the beginning of the year | **Ps 597,627** | Ps 575,839 |
| Benefit obligation at the beginning of the year of merged companies (See Note 2) | **(91,112)** | – |
| Service cost | **30,475** | 37,788 |
| Interest cost | **24,386** | 28,263 |
| Actuarial gain | **–** | 864 |
| Effect of personnel transferred | **110,534** | (20,443) |
| Benefits paid | **(59,777)** | (18,547) |
| Effect of the event of obligation reduction | **(30,317)** | (3,845) |
| Loss from real benefit obligation | **(13,478)** | (2,292) |
| Benefit obligation at the end of the year | **Ps 568,338** | Ps 597,627 |
| **Change in plan asset:** | | |
| Fair value of the plan asset at the beginning of the year | **Ps 210,079** | Ps 172,783 |
| Fair value of the plan asset at the beginning of the year of merged companies | **(32,620)** | – |
| Inflationary adjustment of the initial balance | **7,063** | (9,037) |
| Actual return on plan assets | **222** | 11,820 |
| Purchases/Transfers | **17,453** | – |
| Employer contribution | **52,739** | 53,060 |
| Benefit paid | **(46,378)** | (18,547) |
| Fair value of the plan asset at the end of the year | **Ps 208,558** | Ps 210,079 |

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

The accounting for health care benefits 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, based on actuarial calculations:

| December 31, | **2003** | 2002 |
|---|---|---|
| Projected benefit obligation | **Ps 568,338** | Ps 597,627 |
| Transition liability | **(182,761)** | (210,503) |
| Unamortized actuarial gains and losses | **(45,818)** | (32,347) |
| Plan assets | **(208,558)** | (210,079) |
| Projected net liability | **Ps 131,201** | Ps 144,698 |
| Accumulated benefit obligation | **Ps 227,679** | Ps 261,647 |
| Accumulated net liability (1) | **Ps 83,150** | Ps 96,860 |
| Minimum additional liability (1) | **Ps 16,653** | Ps 33,567 |
| Intangible asset | **(13,293)** | (29,078) |
| Stockholder's equity reduction | **Ps 3,360** | Ps 4,489 |

(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, | **2003** | 2002 |
|---|---|---|
| **Average remaining service life (in years):** | | |
| Pensions | **15** | 20 |
| Seniority premiums | **19** | 18 |
| Postretirement benefits | **18** | 19 |

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

| December 31, | **2003** | 2002 |
|---|---|---|
| Service cost | **Ps 29,309** | Ps 37,788 |
| Financial cost | **23,452** | 28,263 |
| Expected return on assets | **(11,126)** | (11,502) |
| Amortization of net transition obligation | **14,687** | 17,082 |
| Amortization of actuarial gains and losses | **1,655** | 2,259 |
| | **Ps 57,977** | Ps 73,890 |

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, | **2003** | 2002 |
|---|---|---|
| Weighted discount rate | **5%** | 5% |
| Estimated return on plan assets | **6%** | 7% |
| Increase rate in salaries | **2%** | 2% |

## NOTE 11 – CONTINGENCIES

**a) Bottling agreements**

The bottling agreements entered into with TCCC, provide that, unless expressly authorized by TCCC, ARCA may not bottle any products other than Coca-Cola products. ARCA is currently bottling and distributing some other products under its own brand names. 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 agreements. To date, TCCC has not taken any action under the bottling agreements 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 agreements it must first provide notice to ARCA and an opportunity to cure any default under the bottling agreements in a given term.

**b) The Mexican Antitrust Commission**

On February 22 and March 3, 2000 Pepsi-Cola Mexicana and several other companies filed a complaint with the Mexican Antitrust Commission (MAC), accusing the Mexican bottlers of Coca-Cola products, including some of ARCA's subsidiaries 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 appeals against the resolutions and other acts of the MAC. As a result of these procedures, the resolutions referred to above have been left without effect. However the MAC could restart the procedure against ARCA and other TCCC bottlers.

**c) General dispositions of the National Securities and Exchange Commission (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 6.16% to 10.50%. 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.

## NOTE 12 – STOCKHOLDERS' EQUITY AND RETAINED EARNINGS

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

| | 2003 | | | 2002 |
|---|---|---|---|---|
| | **Nominal value** | **Restatement** | **Total** | Total |
| Stockholders´ equity | **Ps 50,000** | **Ps 3,953,879** | **Ps 4,003,879** | Ps 4,003,879 |
| Paid in capital | **513,495** | **57,961** | **571,456** | 559,367 |
| | **563,495** | **4,011,840** | **4,575,335** | 4,563,246 |
| Retained earnings | **7,585,816** | **(1,669,522)** | **5,916,294** | 5,981,302 |
| Cumulative translation adjustment of foreign subsidiary | **5,880** | **–** | **5,880** | 4,596 |
| Stockholders' reduction from labor obligations | **(3,360)** | **–** | **(3,360)** | (4,489) |
| Deficit from restatement | | **(1,832,857)** | **(1,832,857)** | (1,782,889) |
| | **7,588,336** | **(3,502,379)** | **4,085,957** | 4,198,520 |
| Total majority interest | **8,151,831** | **509,461** | **8,661,292** | 8,761,766 |
| Minority interest | **126** | **–** | **126** | 211 |
| Total stockholders' equity | **Ps 8,151,957** | **Ps 509,461** | **Ps 8,661,418** | Ps 8,761,977 |

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, 2003 and 2002, 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 a meeting held on April 23, 2002, the stockholders approved the maximum amount of resources that could be destined to the purchase of own shares at Ps 400,000. During the year ended December 31, 2003, ARCA acquired 765,100 shares equal to Ps 8,885 (477,700 shares equal to Ps 9,859 in 2002). At the date of issuance of these consolidated financial statements, the market value of ARCA's shares was Ps 23.34

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 settlors 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 on a pro rata basis.

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 acquired 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.

In the event of distribution of dividends on earnings not previously taxed, these dividends will incur in a tax of 49.25% and 47.06% if these are paid during 2004 and 2005, respectively. The tax incurred will be payable by ARCA and may be credited against the tax for the year or that of the following two years. Dividends paid will not be subject to any withholding.

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 (EXPENSE), NET

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

| December 31, | **2003** | 2002 |
|---|---|---|
| Loss from sales and estimates for the disposal of fixed assets (1) | **Ps 33,034** | (Ps 160,003) |
| Return of compensation fees from prior years (2) | **–** | 69,542 |
| Other | **(2,416)** | 46,323 |
| | **Ps 30,618** | (Ps 44,138) |

(1) Compensation fees paid for the importation of high fructose during 1999, 2000 and 2001.
(2) 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 2003, 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, | 2003 | 2002 |
|---|---|---|
| Currently payable: | | |
| Income tax | **Ps 783,373** | Ps 829,623 |
| Employees' profit sharing | **207,593** | 257,847 |
| | **990,966** | 1,087,470 |
| Deferred income tax | **(95,502)** | (125,852) |
| | **Ps 895,464** | Ps 961,618 |

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

| December 31, | 2003 | 2002 |
|---|---|---|
| Income before income tax and employees' profit sharing | **Ps 2,112,361** | Ps 2,213,445 |
| Special item | **(216,942)** | – |
| Income before income tax , employees' profit sharing and special item | **1,895,419** | 2,213,445 |
| Statutory tax rate (34% in 2003 and 35% in 2002) | **Ps 644,442** | Ps 774,706 |
| Differences between tax and financial accounting for: | | |
| Inventory purchases versus cost of sales | **18,168** | 19,316 |
| Depreciation, amortization and disposal of fixed assets | **(89,453)** | (74,871) |
| Financing cost related to inflation | **63,503** | (63,113) |
| Special tax consolidation items | **81,240** | (29,022) |
| Asset tax | **9,856** | 17,071 |
| Allowances and other non deductible | **(39,885)** | 59,684 |
| Current and deferred income tax | **Ps 687,871** | Ps 703,771 |
| Effective tax rate | **36%** | 32% |

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

| December 31, | 2003 | 2002 |
|---|---|---|
| Inventory | **Ps 297,440** | Ps 329,879 |
| Property, plant and equipment | **1,039,257** | 1,096,112 |
| Liabilities for pension plans and seniority premiums | **(37,756)** | (43,592) |
| Tax loss carryforwards | **(1,910)** | (8,370) |
| Other | **(20,279)** | (1,775) |
| Total net deferred income tax liability | **Ps 1,276,752** | Ps 1,372,254 |

In accordance with the new Mexican Income Tax Law, effective January 1, 2003, the current income tax rate of 35% will be reduced annually by 1% beginning 2003 to 2005, to a nominal rate of 32%.

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.

## NOTE 15 – FOREIGN CURRENCY POSITION

At December 31, 2003 and 2002, the exchange rates were: 11.19 and 10.36 nominal pesos to the dollar, respectively.

As of December 31, 2003 and 2002, ARCA had the following foreign currency assets and liabilities:

| December 31, | **2003** | 2002 |
|---|---|---|
| Monetary assets | **US$ 69,993** | US$ 29,709 |
| Monetary liabilities (1) | **(1,660)** | (25,017) |
| Net monetary position | **US$ 68,333** | US$ 4,692 |

(1) At December 31, 2002, the syndicated loan of US$180 thousand referred to in Notes 2 and 8, is financially considered in foreign currency for only US$10 thousand due to the foreign currency exchange contracts in the amount of US$170 thousand mentioned in Note 18.

ARCA holds nonmonetary assets in foreign currency, principally comprising machinery and equipment, of which Management estimates that approximately 80% are of foreign origin.

ARCA's foreign currencies transactions were as follows:

| December 31, | **2003** | 2002 |
|---|---|---|
| Sales | **US$ 15,065** | US$ 13,021 |
| Purchase of raw material | **(11,159)** | (5,073) |
| Purchase of fixed assets | **(6,598)** | 1,741 |

At February 23, 2004, date of issuance of these audited financial statements, the exchange rate was Ps 10.94 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

| | **2003** | 2002 | Var. % |
|---|---|---|---|
| Soft drinks | **285,076** | 284,698 | 0.1% |
| Diet drinks | **25,040** | 25,427 | (1.5%) |
| Flavored drinks | **94,759** | 91,568 | 3.5% |
| Purified water | **9,410** | 7,732 | 21.7% |
| Other | **2,568** | 1,203 | 113.5% |
| Total | **416,853** | 410,628 | 1.5% |

b. Accumulated sales by brand

| | **2003** | 2002 | Var. % |
|---|---|---|---|
| Coca-Cola | **366,247** | 357,974 | 2.3% |
| Private labels and third parties | **50,606** | 52,655 | (3.9%) |
| Total | **416,853** | 410,629 | 1.5% |

c. Accumulated sales by presentation and size

| | **2003** | **% of total** | 2002 | % of total |
|---|---|---|---|---|
| Non-disposable | **230,987** | **55.4%** | 257,991 | 62.8% |
| Disposable | **185,866** | **44.6%** | 152,637 | 37.2% |
| Total | **416,853** | **100.0%** | 410,628 | 100.0% |
| Individual | **237,774** | **57.0%** | 239,793 | 58.4% |
| Familiar | **179,079** | **43.0%** | 170,835 | 41.6% |
| Total | **416,853** | **100.0%** | 410,628 | 100.0% |

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

| December 31, | **2003** | 2002 |
|---|---|---|
| Coca-Cola | **68.4%** | 69.6% |
| Coca-Cola Light | **5.9%** | 6.2% |
| Flavors | **20.4%** | 22.0% |
| Bottled water | **2.3%** | 2.0% |
| Other | **3.0%** | 0.2% |
| | **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 (due to) related parties are as follows:

| December 31, | **2003** | 2002 |
|---|---|---|
| Innovadora de Esencias Aromas y Sabores, S. A. de C. V. (Ideas) (1) | **(Ps 1,612)** | (Ps 643) |
| Transportes Especializados Regiomontanos, S. A. de C. V. (Tersa) (2) | **(890)** | 333 |
| Transportes Frontera de Chihuahua, S. A. de C. V. (TFC) (3) | **(309)** | (1,189) |
| Criotec, S. A. de C. V. (Criotec) (4) | **(310)** | (7,252) |
| Desarrolladora Corporativa, S. A. de C. V. (Descorp) (5) | **(2,036)** | (2,041) |
| Componentes de Vehículos Recreativos, S. A. de C. V. (Coveresa) (6) | **(31)** | (67) |
| Fevisa Industrial, S. A. de C. V. (Fevisa) (7) | **(2,202)** | (1,360) |
| Novamex, S. A. de C. V. (Novamex) (8) | **(671)** | 763 |
| Industria Carrocera San Roberto, S. A de C. V. (10) | **(1,158)** | – |
| EON México, S. A de C. V.(11) | **(81)** | – |
| Litografía de Saltillo, S. A de C. V. | **(17)** | – |
| | **(Ps 9,317)** | (Ps 11,456) |

The main transactions with related parties were as follows:

| December 31, | | 2003 | | 2002 |
|---|---|---|---|---|
| Revenues: | | | | |
| Sales of bottles and products (8) | **Ps** | **10,990** | Ps | 46,148 |
| Lease (9) | | **276** | | – |
| | **Ps** | **11,266** | Ps | 46,148 |
| Costs: | | | | |
| Purchase of concentrate (1) | **Ps** | **49,561** | Ps | 60,338 |
| Freights (2) (3) | | **105,630** | | 93,485 |
| Acquisition of refrigerators (4) | | **84,262** | | 37,876 |
| Purchase of bottles (7) | | **30,010** | | 1,352 |
| Bodyworks (10) | | **13,916** | | 6,516 |
| Monitoring services of vending machines (11) | | **5,990** | | 16,636 |
| Insurances (12) | | **1,683** | | 16,844 |
| Advertising services | | **1,369** | | – |
| Uniforms employed | | **988** | | – |
| Printed documents and stationery | | **1,386** | | – |
| Other | | **726** | | – |
| | | **295,521** | | 233,047 |
| Net | **(Ps** | **284,255)** | (Ps | 186,899) |

(1) ARCA purchases the concentrate for its Joya products from Ideas, a company owned by some of ARCA's stockholders. Additionally, ARCA leases some properties to Ideas.
(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) Desarrolladora Arca, S. A. de C. V. owned and leased to Ideas and Tersa several buildings and other real property prior to July 2001.
(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.

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.

## NOTE 18 – FINANCIAL INSTRUMENTS

On June 7, 2002, ARCA entered into an operation contract for the exchange of foreign currency with Bank of America México (BAMSA). In accordance with the contract, BAMSA is obliged to pay ARCA US$70 million at the date of maturity, as well as to pay interests quarterly at a Libor rate plus 1 to 1.25%. Also, ARCA is obliged to pay BAMSA Ps 697,200 at the date of maturity, as well as to pay interest quarterly at a fixed rate of 11.495%.

On June 14, 2002, ARCA entered into an operation contract for the exchange of foreign currency with Wachovia Bank, National Association (Wachovia). In accordance with the contract, Wachovia is obliged to pay ARCA US$100 million at the date of maturity, as well as to pay interest quarterly at a Libor rate plus 1 to 1.25%. Also, ARCA is obliged to pay Wachovia Ps 985,000 at the date of maturity, as well as to pay interest quarterly at a fixed rate of 10.55%.

Even though the prior contracts expired on December 7 and November 30, 2004, respectively, ARCA paid such contracts in advance, since derived from the issuance of stock certificates the advance payment of the syndicated loan, which was the reason for the aforementioned contracts, was made possible (See Note 9). Upon settling the contracts with BOFA and Wachovia, an expense of Ps 78,963 was recognized and recorded within financial expense in income for the year.

In relation with the issuance of stock certificates mentioned in Note 9, 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 Ps 500,000, semestral interest at a variable reference 182-day Cetes 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.

ii. On January 9, 2004 a contract with BOFA. In accordance with the contract, BOFA agrees to pay ARCA, over an amount of Ps 500,000, semestral interest at a variable reference 182-day Cetes rate plus 0.88%. ARCA, on the other hand, agrees to pay BOFA 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.

| | Market value |
|---|---|
| BOFA | Ps 1,806 |
| ING | 2,876 |

## 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 Amcor, injection and blowing machinery and equipment at a price of US$42,000 through a financial lease program.

At December 31, 2003, ARCA has an account receivable derived from the financial lease for US$36,750, which in accordance with the contract, bears interest at an annual 2% rate maturing in the following years:

| | |
|---|---|
| 2004 | US$ 5,250 |
| 2005 | 5,250 |
| 2006 | 5,250 |
| 2007 to 2010 | 21,000 |
| | US$ 36,750 |

## NOTE 20 – SUBSEQUENT EVENTS

a. At December 31, 2003 the Stockholders decided to merge Embotelladora Pitic, S. A. de C. V. (merged company) with Compañía Embotelladora de Nueva Obregón, S. A. de C. V. (merging company) and Distribuidora de Bebidas Arca, S. A. de C. V. and Productora de Hielo del Norte, S. A. de C. V. (merged companies) with Embotelladora de la Frontera, S. A. de C. V. (merging company), as part of the facilities and distribution centers' streamlining plan agreed in February 2003 (See Note 2). Therefore, ARCA will operate with 21 legal entities as from 2004. The aforementioned mergers will be effective as of January 1, 2004.

b. On February 2, 2004, TCCC authorized ARCA to market Coca-Cola products in the cities of Meoqui, Delicias Camargo and Saucillo, all of which are located in the state of Chihuahua. Derived from this situation, Management estimates an increase of 1.5% over the sales volume of the prior year.

Ing. Francisco Garza E.
Chief Executive Officer

Dr. Adrián Wong B.
Chief Financial Officer

# Report of Statutory Auditor

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

Monterrey, Mexico, February 23, 2004

In my capacity as Statutory Auditor and in compliance with Article 166 of the Mexican General Companies Law and of the Company's by-laws, I hereby submit my report on the veracity, sufficiency and reasonability of the financial information prepared by and under the responsibility of the company's management, presented to you by the Board of Directors concerning the company's operations for the year ended as of December 31, 2003 that shows the net income for that year for Ps 1,005,122 thousand of Mexican pesos.

I have attended the Stockholders' and Board of Directors' meetings of which I have been notified, and I have obtained from the directors and administrators the operating information, documentation and accounting records that I considered it necessary to examine. My review was carried out in accordance with auditing standards generally accepted in Mexico.

The external auditors of the Company and its subsidiaries have performed tests in conformity with generally accepted auditing standards on the consolidated financial statements of Embotelladoras Arca, S. A. de C. V. and subsidiaries, prepared by and under the responsibility of the Company's Management. The auditors' report of PricewaterhouseCoopers, firm in which I am a partner, refers to the following issue:

"As of February 25, 2003, the Board of Directors approved a streamlining plan for their facilities and distribution centers, a savings plan in centralized purchases and a corporate and operational reorganization plan, all of which are an integral part of an improvement and efficiency program described in Notes 1 and 2 to these financial statements."

In my opinion, the accounting and reporting policies and criteria followed by the company and applied by management in preparing the financial information presented to this meeting are appropriate and adequate and have been applied on a basis consistent whit that of the previous year; therefore, such information correctly, fairly and adequately present the financial position of Embotelladoras Arca, S. A. de C. V. at December 31, 2003, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in Mexico.

C.P. Carlos Arreola Enríquez
Statutory Auditor

**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 2003 and March 2004, 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 12 meetings, to which we invited the Company's Examiner.
2. After a careful analysis, we recommended that the Board of Directors ratify the hiring of 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 the Internal auditing function, its schedule of tasks 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, 2003, 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 though 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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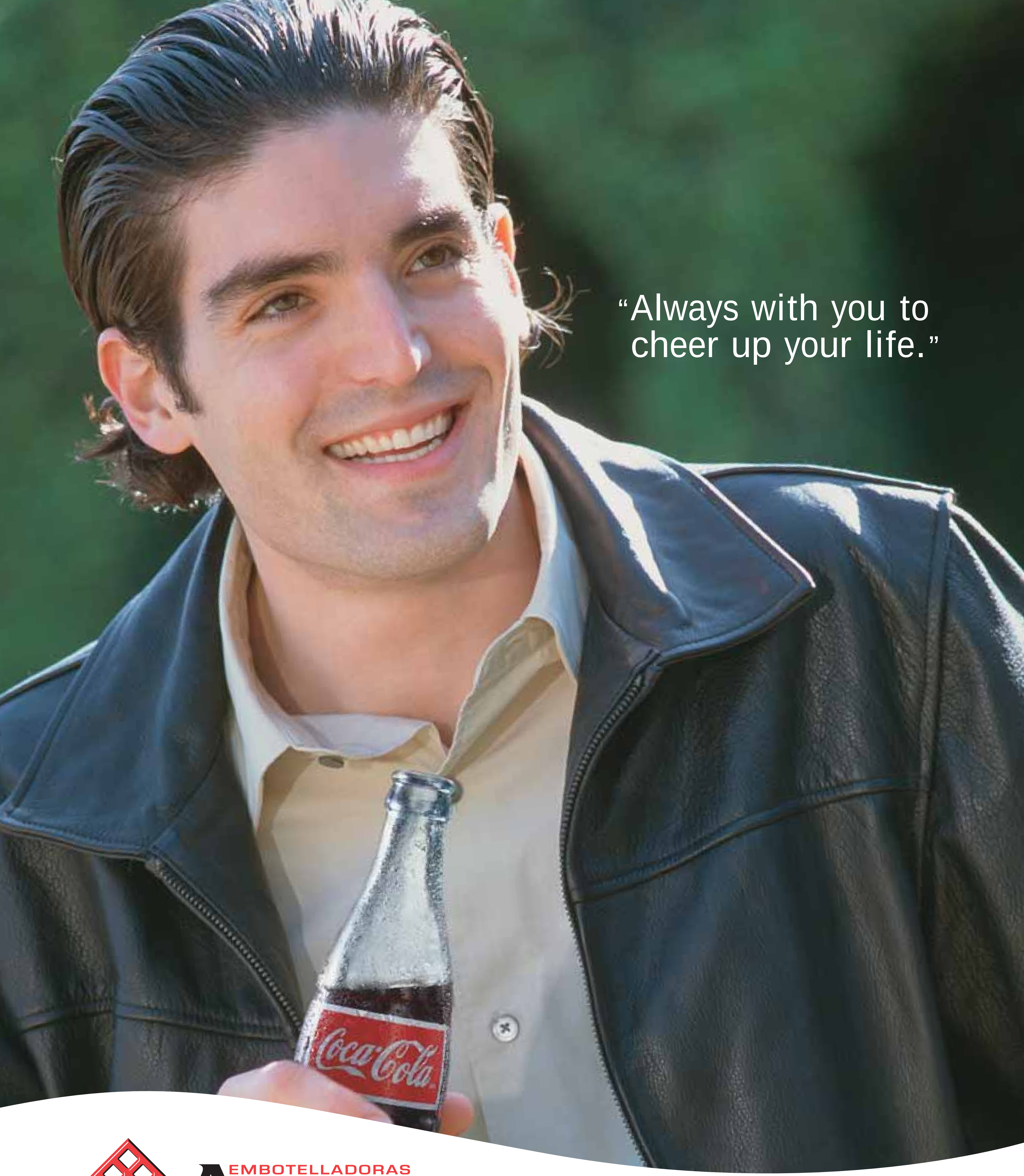
COTIZA EN BOLSA MEXICANA DE VALORES

ARCA

ECOCE ESR

Design: Herring Design   Photography: Javier Orozco   Printing: Earthcolor, Houston

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