PANAMERICAN BEVERAGES INC
Form 10-Q
August 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NUMBER 1-12290

PANAMERICAN BEVERAGES, INC.
(Exact name of registrant as specified in its charter)

Republic of Panama (State or other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
c/o Panamco, L.L.C. 701 Waterford Way, Suite 800 Miami, Florida (Address of principal executive offices)	33126 (Zip code)

(305) 929-0800
(Registrant's Telephone Number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of each of the registrant's classes of common and preferred stock, par value $0.01 per share, as of August 9, 2002 were:

Class A Common Stock:	111,142,998
Class B Common Stock:	8,659,825
Class C Preferred Stock:	2

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PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Stated in thousands of United States of America ("U.S.") dollars,
except per share amounts)
(Unaudited)

	June 30, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and equivalents	$ 62,053	$ 133,666
Accounts receivable, net	126,824	136,614
Inventories, net	97,804	103,040
Other current assets	22,421	27,466
Total current assets	309,102	400,786
Investments	34,599	28,522
Property, plant and equipment, net	954,716	1,043,870
Bottles and cases, net	191,156	213,908
Cost in excess of net assets acquired, net	847,777	869,056
Other assets	101,372	136,884
Total assets	$ 2,438,722	$ 2,693,026
LIABILITIES		
Current liabilities:		
Accounts payable	$ 195,210	$ 274,164
Current portion of long-term obligations	220,080	75,439
Bank loans	31,202	35,184
Other accrued liabilities	138,375	184,878
Total current liabilities	584,867	569,665
Long-term liabilities:		
Long-term obligations, net of current portion	643,207	859,619
Other liabilities	134,007	162,756
Total long-term liabilities	777,214	1,022,375
Total liabilities	1,362,081	1,592,040

(Continued)

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PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Stated in thousands of U.S. dollars, except per share amounts)
(Unaudited)

(Continued)

	June 30, 2002	December 31, 2001
Commitments and contingencies		
Minority interest in consolidated subsidiaries	25,184	28,541
SHAREHOLDERS' EQUITY		
Class C preferred stock, $0.01 par value; 50,000,000 shares authorized; 2 shares issued and outstanding at June 30, 2002 and December 31, 2001, respectively	-	-
Class A common stock, $0.01 par value; 500,000,000 authorized; 136,974,151 and 136,952,780 shares issued and 112,012,389 and 113,237,031 shares outstanding at June 30, 2002 and December 31, 2001, respectively	1,370	1,369
Class B common stock, $0.01 par value; 50,000,000 authorized; 11,037,711 and 11,059,082 shares issued and 8,659,825 and 8,681,245 shares outstanding at June 30, 2002 and December 31, 2001, respectively	110	111
Capital in excess of par value	1,592,654	1,591,827
Retained earnings	224,125	138,433
Accumulated other comprehensive loss	(543,794)	(458,341)
	1,274,465	1,273,399
Less 27,339,648 and 26,093,586 treasury shares held at June 30, 2002 and December 31, 2001, respectively, at cost	(223,008)	(200,954)
Total shareholders' equity	1,051,457	1,072,445
Total liabilities and shareholders' equity	$ 2,438,722	$ 2,693,026

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

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Mon
	2002	2001	2002
Net sales	$ 623,434	$ 666,163	$ 1,247,
Cost of sales, excluding depreciation and amortization	308,454	318,200	617,
Gross profit	314,980	347,963	629,
Operating expenses:			
Selling, general and administrative	198,873	203,861	400,
Depreciation and amortization	48,476	62,576	93,
Nonrecurring items, net	(2,747)	-	5,
	244,602	266,437	498,
Operating income	70,378	81,526	131,
Other income (expense):			
Interest income	1,239	4,734	3,
Interest expense	(22,362)	(28,469)	(44,
Other income (expense), net	1,518	(1,754)	46,
	(19,605)	(25,489)	5,
Income before provision for income taxes	50,773	56,037	137,
Provision for income taxes	16,995	14,432	34,
Income before minority interest	33,778	41,605	102,
Minority interest in earnings of consolidated subsidiaries	1,573	1,363	2,
Net income	$ 32,205	$ 40,242	$ 100,

Basic earnings per share	$ 0.27	$ 0.32	$ 0
Basic weighted average shares outstanding	121,140	126,917	121,
Diluted earnings per share	$ 0.26	$ 0.31	$ 0
Diluted weighted average shares outstanding	122,245	128,244	122,

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

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in thousands of U.S. dollars)
(Unaudited)

	Six Months
	2002
Net cash provided by operating activities	$ 31,036
Cash flows from investing activities:	
Capital expenditures	(32,031)
Purchases of bottles and cases	(18,906)
Purchases of investments	(4,688)
Proceeds from sale of investments	48,801
Proceeds from sale of property, plant and equipment	7,005
Other	2,149
Net cash provided by investing activities	2,330
Cash flows from financing activities:	
Payment of bank loans and other long-term obligations	(92,202)
Proceeds from bank loans and other long-term obligations	35,652
Issuance of capital and treasury stock	1,706
Share repurchase	(22,933)
Payment of dividends to minority interest	(2,165)
Payment of dividends to shareholders	(14,695)
Other	2,710
Net cash used in financing activities	(91,927)
Effect of exchange rate changes on cash and cash equivalents	(13,052)

Net (decrease) increase in cash and equivalents	(71,613)
Cash and equivalents at beginning of period	133,666
Cash and equivalents at end of period	$ 62,053
Supplemental cash flow disclosures:	
Cash paid during the year for:	
Interest (net of capitalized interest)	$ 38,885
Income taxes	$ 45,601
Noncash activities:	
Write-off of fixed assets and reversal into income of remaining balances related to facilities reorganization costs	$ (1,123)

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

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Balances in the tables are stated in thousands of U.S. dollars, except per share amounts)
(Unaudited)

(1) Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared by Panamerican Beverages, Inc. (the "Company"), in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). In the opinion of management, these unaudited condensed consolidated financial statements contain all adjustments, which are of a normal recurring nature, necessary to present fairly the Company's consolidated financial position as of June 30, 2002 and December 31, 2001, and the consolidated results of operations for the three and six months ended June 30, 2002 and 2001. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the SEC. These unaudited financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's 2001 Annual Report on Form 10-K filed with the SEC on April 1, 2002. The Company has made no significant changes in accounting policies from those reflected in the consolidated financial statements included in the 2001

Annual Report on Form 10-K.

The financial statements of the Venezuelan subsidiary for all periods have been remeasured into U.S. dollars, the reporting and functional currency, in accordance with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation", as it applies to highly inflationary economies. The functional currencies of the remaining subsidiaries are the Mexican peso, Brazilian real, Colombian peso, Costa Rican colon, Nicaraguan cordova and Guatemalan quetzal, which financial statements have been translated using the current rate translation method and the resulting translation adjustments are included in accumulated other comprehensive income (loss), which is a component of shareholders' equity. As of December 31, 2001, the Company discontinued classifying Colombia as a highly inflationary economy, and, accordingly, the functional currency of the Colombian operations was changed from the U.S. dollar to the Colombian peso. For the three months ended June 30, 2002 and 2001, the Company recorded in its condensed consolidated statements of operations a net translation gain, for the Venezuelan subsidiary, of $3.8 million and $0.9 million, respectively. For the six months ended June 30, 2002 and 2001, the Company recorded in its condensed consolidated statements of operations a net translation gain, for the Venezuelan subsidiary, of $10.3 million and $3.9 million, respectively.

(2) New Accounting Standards and Pronouncements

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by this standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activities. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. The Company is currently assessing but has not yet determined the impact of SFAS No.146 on its financial position and results of operations and, as such, the Company is unable to disclose the impact that adopting these statements will have on its financial position and results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of the FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 eliminates the requirement to classify gains and losses from the extinguishment of indebtedness as extraordinary, requires certain lease modifications to be treated the same as a sale-leaseback transaction, and makes other non-substantive technical corrections to existing pronouncements. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with earlier adoption encouraged. The Company is currently assessing but has not yet determined the impact of SFAS No.145 on its financial position and results of operations and, as such, the Company is unable to disclose the impact that adopting these statements will have on its financial position and results of operations.

Reclassifications have been made in the 2001 condensed consolidated statements of operations to conform to classifications used in the current year, in accordance with Emerging Issues Task Force ("EITF") No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (including a Reseller of the Vendor's Products)." EITF 01-9 became effective for the Company beginning January 1, 2002, and requires certain promotional payments made to customers by the Company, that were previously classified as selling and distribution expenses, to be classified as a reduction from net sales. The Company reclassified as a reduction from net sales approximately $5.3 million and $8.5 million of selling expenses, which were previously classified as selling and distribution expenses in the condensed consolidated statements of operations for the three and six months ended June 30, 2001.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which requires goodwill to be tested for impairment and written down when impaired, rather than being amortized over useful lives, as previous standards required. SFAS No. 142 became effective for the Company beginning January 1, 2002. Had the Company adopted SFAS No. 142 on the first day of 2001, for the three months ended June 30, 2001, amortization expense would have been lowered by $6.7 million and net income would have increased $6.3 million (or $0.05 per diluted share) to $46.5 million. For the six months ended June 30, 2001, amortization expense would have been lowered by $13.3 million and net income would have increased $12.5 million (or $0.10 per diluted share) to $74.0 million. During the second quarter of 2002, the Company completed the first step of the transitional goodwill impairment test (valuation of goodwill). The outcome of this test did not result in the recognition of impairment of goodwill.

(3) Earnings (Loss) per Share

In accordance with SFAS No. 128, "Earnings per Share," basic earnings per common share calculations are determined by dividing earnings available to common shareholders by the weighted average number of shares of common stock. Diluted earnings per share are determined by dividing earnings available to common shareholders by the weighted average number of shares of common stock and dilutive common stock equivalents outstanding, related to outstanding stock options and nonvested stock grants.

Following is a reconciliation of the weighted average number of shares outstanding with the number of shares used in the computation of diluted earnings (loss) per share:

	Three Months Ended June 30,		S
	2002	2001	2
Numerator:			
Net income	$ 32,205	$ 40,242	$
Denominator (in thousands):			
Denominator for basic earnings per share	121,140	126,917	
Effect of dilutive securities:			
Options to purchase common stock	1,105	1,327	
Denominator for diluted earnings per share	122,245	128,244	
Earnings per share:			
Basic	$ 0.27	$ 0.32	$
Diluted	$ 0.26	$ 0.31	$

The Company declared and paid cash dividends of $0.06 per share of common stock for the three and six months ended June 30, 2002.

(4) Reorganization Programs

During 2000, the Company implemented company-wide reorganization programs designed to improve productivity and strengthen the Company's competitive position in the beverage industry. As of June 30, 2002, approximately 7,700 employees have been terminated by the Company relating to the reorganization programs implemented during 2000. As of June 30, 2002, the reorganization programs have been completed and all remaining balances related to accrued facilities reorganization costs totalling $4.2 million, which includes $1.1 million in cash items and $3.1 million in noncash items as disclosed in Note 5 of "Notes to Condensed Consolidated Financial Statements", were reversed into operating income and reflected as Nonrecurring items, net, in the Company's condensed consolidated statements of operations.

(5) Nonrecurring Items

During the first quarter of 2002, the Company recorded a gain on the sale of its 12.1% equity stake in Cervejarias Kaiser, S.A. ("Kaiser") as part of a larger transaction in which Molson, Inc. acquired Kaiser and entered into a partnership with Heineken. The sale generated proceeds which include approximately $2.4 million reflected within accounts receivable as of June 30, 2002 and an interest of $18.9 million in Molson stock recorded as an investment (the Molson stock received by Kaiser cannot be sold for a period of two years), and resulted in a gain of $48.6 million, which is included as part of Other income (expense), net, in the Company's condensed consolidated statements of operations. The Company will continue to distribute Kaiser products in its franchise areas in

Brazil and the acquisition of Kaiser will not impact this distribution agreement.

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Balances in the tables are stated in thousands of U.S. dollars, except per share amounts)
(Unaudited)

The following table shows a summary of the net charges and benefits recorded in the condensed consolidated financial statements for the three and six months ended June 30, 2002:

	2002		
	Total	Second Quarter	First Quarter
Nonrecurring items, net:			
Cash charges (benefits) (a)	$ 6,178	$ 399	$ 5,779
Noncash charges (benefits) (b)	(1,123)	(3,146)	2,023
	5,055	(2,747)	7,802
Included in Other income (expense), net:			
Nonoperating charges (benefits) (c)	(39,844)	-	(39,844)
Gross charges (benefits), net	(34,789)	(2,747)	(32,042)
Tax provision (benefit)	(2,546)	1,122	(3,668)
Net charges (benefits), net	$ (37,335)	$ (1,625)	$ (35,710)

(a) The cash charges (benefits) relate to severance payments for the termination of approximately 800 employees in Mexico and Venezuela totalling \$10.7 million, to excise tax benefits obtained in Brazil totalling \$3.4 million, and to the reversal into income of accrued facilities reorganization costs related to cash items (see Note 4 of "Notes to Condensed Consolidated Financial Statements") totalling \$1.1 million.

(b) The noncash charges (benefits) relate to the closure of plants in Venezuela totalling \$1.7 million, to fixed assets charges in Mexico totalling \$0.3 million, and to the reversal into income of accrued facilities reorganization costs related to noncash items (see Note 4 of "Notes to Condensed Consolidated Financial Statements") totalling \$3.1 million.

(c) The nonoperating charges (benefits) relate to the gain totalling \$48.6 million on the sale of Kaiser, to the sale, at a loss totalling $3.0 million, of the corporate airplane to a related party, and to the payment of excise taxes totalling $5.8 million on soft drink inventories containing high fructose corn syrup in Mexico during the first quarter. The payment of the excise taxes resulted from a law that was suspended shortly after it was initiated, but subsequently reinstated effective July 15, 2002. The Company has initiated legal proceedings to seek a refund of the amounts already paid during the first quarter of 2002.

(6) Transactions with Related Parties

The Company purchases raw materials from various suppliers, including related parties, subject to approval of The Coca-Cola Company ("Coca-Cola"). Such transactions with related parties are conducted in the ordinary course of business at negotiated prices comparable to those transactions with other customers and suppliers. The principal components of related party transactions were purchases of concentrates, syrups, sugars, returnable and non-returnable bottles, cans, and caps.

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Balances in the tables are stated in thousands of U.S. dollars, except per share amounts)
(Unaudited)

Amounts due from or due to related parties as of June 30, 2002 and December 31, 2001, respectively, are as follows:

	June 30, 2002	December 31, 2001
Accounts receivable:		
Subsidiaries of Coca-Cola	$ 17,206	$ 14,025
Subsidiaries of Kaiser (a)	1,644	2,485
	$ 18,850	$ 16,510
Accounts payable:		
Subsidiaries of Coca-Cola	$ 14,597	$ 21,842
Productos de Vidrio, S.A.	948	2,912
Central Azucarero Portuguesa, C.A.	1,886	1,950
Other	2,494	2,331
	$ 19,925	$ 29,035

(a) Excludes $2.4 million related to the sale of the Company's investment in Kaiser.

The Company had the following significant transactions with related parties:

Three Months Ended Six Months

(Balances in the tables are stated in thousands of U.S. dollars, except per share amounts)

	June 30, 2002		June 30, 2
	2002	2001	2002
Income:			
Marketing expense support from Coca-Cola (recorded net against marketing expenses)	$ 8,093	$ 9,325	$ 15,161
Kaiser beer distribution fees	949	727	2,005
Other	-	89	259
	$ 9,042	$ 10,141	$ 17,425
Expenses:			
Purchases of concentrate from Coca-Cola	$ 100,971	$ 119,243	$ 158,059
Purchases of beer	9,735	12,638	20,209
Purchases of other inventories	26,558	10,860	51,579
	$ 137,264	$ 142,741	$ 229,847
Capital incentives received in cash	$ 745	$ 670	$ 1,032

On April 22, 2002, the Company sold its corporate airplane for $10.5 million to a trust affiliated with a director of the Company. In connection with this transaction, the Company terminated the operating lease for the airplane by payment to the lending bank of $14.9 million representing the amount outstanding under the lease. The Company believes the terms of this transaction were no less favorable to the Company than could have been obtained from an unaffiliated third party.

(7) Inventories

Inventories consist of:	June 30, 2002	December 31, 2
Bottled beverages	$ 27,628	$ 28,
Raw materials	46,338	51,
Spare parts and supplies	29,723	29,
	103,689	109,
Less - Allowance for obsolete and slow moving items	5,885	6,

	$ 97,804	$ 103,

(8) Share Repurchase Program

During the second quarter of 2002, the Company repurchased 914,600 shares for a total amount of $15.7 million (including commissions) under the Company's 2002 Share Repurchase Program. The Company expects to continue to repurchase shares and to increase the size of the 2002 Share Repurchase Program in the third quarter of 2002.

(9) Comprehensive Income (Loss)

Comprehensive income (loss) includes net income, translation adjustments and unrealized gains (losses) on derivative financial instruments. The comprehensive income (loss) for the three and six months ended June 30, 2002 and 2001 is as follows:

	Three Months Ended June 30,		Six Months Ende June 30,	
	2002	2001	2002	
Net income	$ 32,205	$ 40,242	$ 100,387	$
Other comprehensive income (loss):				
Translation adjustments	(91,650)	5,443	(85,453)	
Unrealized gains (losses) on derivative financial instruments	523	(275)	-	
Comprehensive income (loss)	$ (58,922)	$ 45,410	$ 14,934	$

(10) Derivative Instruments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133," became effective for the Company on January 1, 2001.

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Balances in the tables are stated in thousands of U.S. dollars, except per share amounts)
(Unaudited)

The Company's business exposes itself to many different market risks, such as fluctuations in interest rates, currency exchange rates and commodity prices. Consequently, the Company considers risk management as an essential activity in the course of our business. The Company, from time to time, utilizes hedging strategies to mitigate those risks. The Company's hedging strategies may include the use of derivative instruments, such as forwards, futures and options, generally with terms not exceeding one year. While it is not the policy of the Company to enter into derivative instruments for speculative purposes, occasionally, the Company may continue holding a derivative instrument for speculative purposes if other business goals and strategies are present at the time.

The Company had a floating-to-fixed interest rate swap (the "Swap"), expiring in November 2002, with a total notional amount outstanding at December 31, 2001 of $250.0 million, which exchanges LIBOR for a fixed interest rate of 6.437%. Upon adoption of SFAS No. 133, the Company designated the Swap as a cash flow hedge. During 2001, the Company determined that it was probable that the original forecasted transaction would not continue through the expiration of the Swap and, therefore, discontinued cash flow hedge accounting. The Company recognized an unrealized loss of $1.0 million and $0.8 million, included in Other income (expense) net, for the three and six months ended June 30, 2002, respectively, in the Company's condensed consolidated statements of operations. As of June 30, 2002, the fair value of the Swap was a liability of $5.7 million and is recorded in Other accrued liabilities.

The Company uses currency swap arrangements to hedge exchange rate exposure arising from the Company's operations in its international subsidiaries. On February 28, 2002, the Company entered into foreign currency forward purchase contracts relating to raw material purchases in Brazil, expiring during the second quarter of 2002, with total notional amounts of approximately $16.6 million, which exchange Brazilian reales for U.S. dollars. The Company realized gains amounting to approximately $0.3 million for the three months ended June 30, 2002, (no impact for the six months ended June 30, 2002) recorded in Cost of sales in the Company's condensed consolidated statements of operations. As of June 30, 2002, the Company had no outstanding foreign currency forward purchase contracts relating to raw material purchases in Brazil.

During the second quarter of 2002, the Company entered into a foreign currency forward purchase contract in its Mexican operations, expiring during the first quarter of 2003, with a notional amount of approximately $14.0 million. As of June 30, 2002, the Company recognized an unrealized loss of approximately $0.7 million recorded in Other income (expense) in the Company's condensed consolidated statements of operations.

During the second quarter of 2002, the Company entered into foreign currency forward purchase contracts with the Brazilian real, expiring during the first quarter of 2004, with total notional amounts of approximately $21.0 million. As of June 30, 2002, the Company recognized an unrealized loss of approximately $1.8 million recorded in Other income (expense) in the Company's condensed consolidated statements of operations.

During the second quarter, the Company entered into an equity forward purchase contract, expiring in March 2004, on Molson shares to be received from the sale of Kaiser, with a notional amount of approximately $8.0 million. As of June 30, 2002, the Company recognized an unrealized holding gain of approximately $0.4 million recorded in Other income (expense) in the Company's condensed consolidated statements of operations.

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Balances in the tables are stated in thousands of U.S. dollars, except per share amounts)
(Unaudited)

(11) Segments and Related Information

The Company operates in the bottling and distribution industries and in markets throughout Latin America. The basis for determining the Company's operating segments is the manner in which financial information is used by the Company in its operations. Management operates and organizes itself according to business units, which comprise the Company's products across geographic locations. The Company evaluates performance and allocates resources based on income or loss from operations. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Long-lived assets constitute total assets less current assets, less long-term deferred income taxes, and less long-term receivables from affiliated companies. Balances reflected in Corporate include eliminating entries that are used in consolidating the unaudited financial statements.

Relevant information concerning the geographic areas in which the Company operates in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," is as follows:

	Six Months Ended June 30, 200			
	NOLAD	Colombia	Venezuela	Brazil
Net sales	$ 661,284	$ 191,152	$ 194,038	$ 201,309
Operating income (loss)	110,626	12,814	(6,685)	14,220
Depreciation and amortization	35,888	24,911	25,311	7,862
Capital expenditures	22,787	2,952	3,526	2,766
	June 30, 2002			
Long-lived assets	$ 649,048	$ 290,561	$ 317,604	$ 145,395
Total assets	775,447	348,494	371,019	279,055

	Six Months Ended June 30, 200			
	NOLAD	Colombia	Venezuela	Brazil
Net sales	$ 630,238	$ 183,152	$ 274,515	$ 223,103
Operating income (loss)	116,425	9,852	19,866	10,077
Depreciation and amortization	43,086	28,019	30,420	11,274
Capital expenditures	27,227	3,017	5,007	2,679
	December 31, 2001			

Long-lived assets	$ 690,155	$ 327,059	$ 339,512	$ 189,279
Total assets	853,458	383,188	419,935	352,883

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
SUPPLEMENTARY FINANCIAL INFORMATION
(Stated in thousands of U.S. dollars)
(Unaudited)

The supplemental statements of operations data for Panamco NOLAD (Panamco Mexico and Panamco Central America, which consists of Costa Rica, Nicaragua and Guatemala), Panamco Colombia, Panamco Venezuela, and Panamco Brazil are presented on the following pages. The data presented as of and for each period have been derived from the unaudited financial statements of Panamco Mexico and Panamco Central America, Panamco Colombia, Panamco Venezuela, and Panamco Brazil, as applicable, which financial statements are not included herein. Additionally, the data presented does not include the unaudited financial data of the Holding company, the Corporate offices or some minor entities; nor does it reflect the eliminating entries that are used in consolidating the unaudited financial statements of the aforementioned subsidiaries.

PANAMCO NOLAD
(Stated in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended June 30,		
	2002	2001	
Statement of Operations Data:			
Net sales	$ 347,144	$ 340,095	$
Cost of sales, excluding depreciation and amortization	157,180	143,805	
Gross profit	189,964	196,290	
Operating expenses:			
Selling, general and administrative	110,320	101,154	
Depreciation and amortization	18,342	23,528	
Nonrecurring items, net	(4,126)	-	

	124,536	124,682	
Operating income	65,428	71,608	
Interest expense, net	(5,723)	(2,885)	
Other income (expense), net	2,088	(1,361)	
Income before provision for income taxes	61,793	67,362	
Provision for income taxes	20,393	20,609	
Income before minority interest	41,400	46,753	
Minority interest in Panamco Mexico subsidiaries	1,282	1,513	
Net income attributable to Panamco NOLAD	40,118	45,240	
Minority interest in Panamco Mexico holding company	607	716	
Net income attributable to Panamco	$ 39,511	$ 44,524	$
Cash operating profit	$ 80,624	$ 95,136	$

Unit Case Sales Volume Growth (Decline):			
Soft drinks	5.2%		
Water	14.4%		
Other products	165.9%		
Total growth (decline)	9.6%		

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PANAMCO COLOMBIA
(Stated in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended June 30,		
	2002	2001	
Statement of Operations Data:			

Net sales	$ 91,413	$ 88,676	$
Cost of sales, excluding depreciation and amortization	42,551	43,180	
Gross profit	48,862	45,496	
Operating expenses:			
Selling, general and administrative	34,451	28,909	
Depreciation and amortization	12,560	13,897	
	47,011	42,806	
Operating income	1,851	2,690	
Interest expense, net	(2,157)	(3,463)	
Other income (expense), net	547	193	
Income (loss) before provision for income taxes	241	(580)	
Provision (benefit) for income taxes	(1,007)	(170)	
Income (loss) before minority interest	1,248	(410)	
Minority interest in Panamco Colombia subsidiaries holding company	20	4	
Net income (loss) attributable to Panamco Colombia holding company	1,228	(414)	
Minority interest in Panamco Colombia	34	(11)	
Net income (loss) attributable to Panamco	$ 1,194	$ (403)	$
Cash operating profit	$ 14,411	$ 16,587	$

Unit Case Sales Volume Growth (Decline):		
Soft drinks	(6.9%)	
Water	(17.3%)	
Other products	(48.1%)	
Total growth (decline)	(9.1%)	

PANAMCO VENEZUELA
(Stated in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	
Statement of Operations Data:			
Net sales	$ 88,449	$ 140,658	$
Cost of sales, excluding depreciation and amortization	51,188	69,413	
Gross profit	37,261	71,245	
Operating expenses:			
Selling, general and administrative	27,304	45,384	
Depreciation and amortization	14,164	15,088	
Nonrecurring items, net	-	-	
	41,468	60,472	
Operating income (loss)	(4,207)	10,773	
Interest expense, net	(3,583)	(4,379)	
Other income (expense), net	(918)	1,761	
Income (loss) before provision for income taxes	(8,708)	8,155	
Provision (benefit) for income taxes	(3,152)	(6,456)	
Net income (loss) attributable to Panamco	$ (5,556)	$ 14,611	$
Cash operating profit	$ 9,957	$ 25,861	$
Unit Case Sales Volume Growth (Decline):			
Soft drinks	(15.0%)		
Water	(26.4%)		
Beer	(47.8%)		
Other products	31.4%		
Total growth (decline)	(15.7%)		

PANAMCO BRAZIL
(Stated in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Statement of Operations Data:		
Net sales	$ 96,428	$ 96,734
Cost of sales, excluding depreciation and amortization	59,385	64,133
Gross profit	37,043	32,601
Operating expenses:		
Selling, general and administrative	27,575	24,747
Depreciation and amortization	3,820	4,980
Nonrecurring items, net	-	-
	31,395	29,727
Operating income	5,648	2,874
Interest expense, net	165	(601)
Other income (expense), net	1,246	(1,495)
Income before provision for income taxes	7,059	778
Provision (benefit) for income taxes	1,520	(692)
Income before minority interest	5,539	1,470
Minority interest in Panamco Brazil holding company	71	9
Net income attributable to Panamco	$ 5,468	$ 1,461
Cash operating profit	$ 9,468	$ 7,854
Unit Case Sales Volume Growth (Decline):		
Soft drinks	(4.3%)	
Water	1.9%	
Beer	(15.1%)	
Other products	373.4%	
Total growth (decline)	(5.9%)	

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion addresses the financial condition and results of operations of Panamerican Beverages, Inc. ("Panamco" or "we") and its consolidated subsidiaries. This discussion should be read in conjunction with our unaudited condensed consolidated financial statements as of June 30, 2002 and December 31, 2001 and for the three and six months ended June 30, 2002 and 2001 and the notes thereto included elsewhere herein. Results for any interim period are not necessarily indicative of results for any full year.

We conduct our operations through tiers of subsidiaries in which, in some cases, minority shareholders hold interests. Since we have varying percentage ownership interests in our approximately 60 consolidated subsidiaries, the amount of the minority interest in income or loss before minority interest during a period depends upon the revenues and expenses of each of the consolidated subsidiaries and the percentage of each of such subsidiary's capital stock owned by minority shareholders during such period.

The results of operations of Panamco Mexico and Panamco Central America, which consists of Panamco Costa Rica, Panamco Nicaragua and Panamco Guatemala, are reported together as Panamco NOLAD (North Latin American Division).

Unit case means 192 ounces of finished beverage product (24 eight-ounce servings). Average sales prices per unit case means net sales in U.S. dollars for the period divided by the number of unit cases sold during the same period. Cash operating profit means operating income plus depreciation and amortization and noncash nonrecurring items.

Forward-looking Statements

Forward-looking statements, contained in this document include the amount of future capital expenditures and the possible uses of proceeds from any future borrowings. The words believes, intends, expects, anticipates, projects, estimates, predicts, and similar expressions are also intended to identify forward- looking statements. Such statements, estimates, and projections reflect various assumptions by our management, concerning anticipated results and are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Factors that could cause results to differ include, but are not limited to, changes in the soft drink business environment, including actions of competitors and changes in consumer preference, changes in governmental laws and regulations, including income taxes, market demand for new and existing products, raw material prices and devaluation of local currencies against the U.S. dollar. Accordingly, we cannot assure you that such statements, estimates and projections will be realized. The forecasts and actual results will likely vary and those variations may be material. We make no representation or warranty as to the accuracy or completeness of such statements, estimates or projections contained in this document or that any forecast contained herein will be achieved. Additional information concerning such factors is contained in our Registration Statement on Form S-8 as filed with the Securities Exchange Commission ("SEC") on July 23, 2001, and the Company's Annual Report on Form 10-K for the year ended December 31, 2001 as well as other documents filed with the SEC, all of which are available from the SEC.

Critical Accounting Policies and Estimates

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates under different assumptions and conditions. We have included in our

Annual Report on Form 10-K for the year ended December 31, 2001 a discussion of our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Except for our adoption of EITF No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (including a Reseller of the Vendor's Products)," and SFAS No. 142, "Goodwill and Other Intangible Assets," as described in Note 2 of "Notes to Condensed Consolidated Financial Statements," we have not made any changes in any of these critical accounting policies during the first half of 2002, nor have we made any material changes in any of the critical accounting estimates underlying these accounting policies during the first half of 2002.

New Accounting Pronouncements

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operations, plant closing, or other exit or disposal activities. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. We are currently assessing but have not yet determined the impact of SFAS No.146 on our financial position and results of operations and, as such, we are unable to disclose the impact that adopting these statements will have on our financial position and results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of the FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 eliminates the requirement to classify gains and losses from the extinguishment of indebtedness as extraordinary, requires certain lease modifications to be treated the same as a sale-leaseback transaction, and makes other non-substantive technical corrections to existing pronouncements. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002, with earlier adoption encouraged. We are currently assessing but have not yet determined the impact of SFAS No.145 on our financial position and results of operations and, as such, we are unable to disclose the impact that adopting these statements will have on our financial position and results of operations.

Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001

Net sales for the second quarter ended June 30, 2002 decreased 6.4% to $623.4 million from $666.2 million in the second quarter of 2001. Net sales was positively impacted by strong volume growth, of 9.6%, in NOLAD, and by the 9.1% and 12.7% local currency year over year average price increases in Brazil and Colombia, respectively. On the other hand, currency weakness in Mexico, Brazil and, particularly, Venezuela, as well as declining industry volumes in Venezuela and Colombia negatively impacted growth.

Cost of sales as a percentage of net sales increased to 49.5% during the second quarter of 2002 from 47.8% in the 2001 period. This increase was mainly the result of an increase in the cost of raw materials and packaging throughout most operations, especially in Venezuela where the devaluation of the Venezuelan bolivar resulted in more costly U.S. dollar-denominated raw materials purchases, as well as a continuous change in product mix towards more one-way presentations for Panamco as a whole, which yield lower profit margins compared to returnables.

Cost of goods sold was also affected in 2002 by the introduction, in the beginning of the year, of an excise tax in Mexico of 20% on fructose-based soft drinks and on carbonated water. In March 2002, this tax was suspended until September 30, 2002, but reinstated by a decision of the Mexican Supreme Court in July. As a result of the reinstatement of this tax, we will record a nonrecurring nonoperating charge in the amount of $2.0 to $3.0 million during the third quarter of 2002 and will have estimated additional costs of approximately $0.5

million per quarter as a result of the price differential between sugar and high fructose and the tax on carbonated water.

Gross profit as a percentage of net sales decreased slightly to 50.5% during the second quarter of 2002 from 52.2% in the second quarter of 2001, mainly the result of a higher cost of raw materials and packaging.

During the second quarter of 2002, Venezuela's macroeconomic environment continued to deteriorate, with the currency devaluing 44.1% from a year ago and consumers continuing to lose purchasing power. This, together with non-competitive pricing that spilled over from the first quarter, resulted in volume and profitability drops for Panamco Venezuela. Moreover, both packaging materials and sugar are dollar denominated costs, which increased significantly against a base of local currency denominated revenues. In order to address these issues, Panamco Venezuela has adjusted prices downward in certain one-way and returnable presentations and continues to strengthen its partnership with The Coca-Cola Company, jointly focusing on renewed advertising, retail execution, and channel marketplace investments. Continued macroeconomic weakness and further devaluation of the Venezuelan bolivar (in excess of the rate of inflation) are expected to continue in 2002.

The following comparison of Panamco's second quarter 2002 and 2001 consolidated results of operations excludes the effect of nonrecurring items, during the second quarter of 2002, amounting to a benefit of $1.6 million, net of the related tax expense of $1.1 million. See "Nonrecurring Items / Reorganization Programs" and Note 5 of "Notes to Condensed Consolidated Financial Statements" for further discussion on Panamco's nonrecurring items.

Operating expenses as a percentage of net sales decreased slightly to 39.7% during the second quarter of 2002 from 40.0% in the 2001 period, mainly due to lower goodwill amortization as a result of adopting SFAS No. 142, "Goodwill and Other Intangible Assets" as well as a 22.5% reduction in depreciation expense, primarily the result of lower property and equipment balances.

Operating income decreased 17.0% to $67.6 million during the second quarter of 2002 from $81.5 million in the 2001 period. Operating income during the quarter was negatively impacted by higher raw material costs, particularly in Mexico, and a change in product mix towards more one-way presentations for Panamco as a whole, which yield lower profit margins compared to returnables. Excluding the results from Venezuela, gross profit and operating income for the quarter increased 0.4% and 5.1%, respectively, from a year ago. Cash operating profit decreased 19.4% (10.2% excluding Venezuela) to $116.1 million in 2002 from $144.1 million in the second quarter of 2001.

Net interest expense decreased 11.0% to $21.1 million during the second quarter of 2002 from $23.7 million in the 2001 period, mainly resulting from the combination of a 21.5% reduction in gross interest expense to $22.4 million from $28.5 million a year ago, which was partially offset by a 73.8% reduction in interest income. The reduction in gross interest expense is the result of a $259.4 million reduction in gross debt on a year over year basis.

Other income increased to $1.5 million during the second quarter of 2002 from an expense of $1.8 million in the 2001 period, primarily the result of a $4.1 million foreign exchange gain increase in Brazil, offset by a $1.4 million unrealized loss on derivative instruments.

The consolidated effective income tax rate increased to 33.1% during the second quarter of 2002 from 25.8% in the 2001 period, primarily the result of a higher proportion of earnings being generated in countries where net operating losses carried forward are not available. On August 12, 2002, the Colombian government imposed an emergency tax equal to 1.2% of liquid assets. Panamco is in the process of reviewing this new law and ascertaining the effect on its results.

As a result of the foregoing, Panamco recorded net income of $30.6 million during the second quarter of 2002, or $0.25 per basic and diluted share, compared to net income of $40.2 million, or $0.32 per basic share ($0.31 on a diluted basis), during the 2001 period.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

Net sales for the six months ended June 30, 2002 decreased 4.8% to $1,247.8 million from $1,311.0 million in the first half of 2001. Net sales was negatively impacted by consolidated volume decline of 2.9%, but was positively impacted by strong volume growth of 6.7% in NOLAD. However, currency weakness in Brazil and, particularly, Venezuela, as well as declining industry volumes in Venezuela and Colombia negatively impacted growth.

Cost of sales as a percentage of net sales increased to 49.5% during the first six months of 2002 from 48.4% in the 2001 period. This increase was mainly the result of an increase in the cost of raw materials and packaging throughout most operations, especially in Venezuela where the devaluation of the Venezuelan bolivar resulted in more costly U.S. dollar-denominated raw materials purchases, as well as a continuous change in product mix towards more one-way presentations for Panamco as a whole, which yield lower profit margins compared to returnables.

Cost of goods sold was also affected in 2002 by the introduction, in the beginning of the year, of an excise tax in Mexico of 20% on fructose-based soft drinks and on carbonated water. In March 2002, this tax was suspended until September 30, 2002, but reinstated by a decision of the Mexican Supreme Court in July.

Gross profit as a percentage of net sales decreased to 50.5% during the first half of 2002 from 51.6% in the 2001 period, mainly the result of a higher cost of raw materials and packaging.

During the first half of 2002, Venezuela's macroeconomic environment continued to deteriorate, with the currency devaluing 33.9% from a year ago and consumers continuing to lose purchasing power. This, together with non-competitive pricing, resulted in volume and profitability drops for Panamco Venezuela. Moreover, both packaging materials and sugar are dollar denominated costs, which increased significantly against a base of local currency denominated revenues. In order to address these issues, Panamco Venezuela has adjusted prices downward in certain one-way and returnable presentations and continues to strengthen its partnership with The Coca-Cola Company, jointly focusing on renewed advertising, retail execution, and channel marketplace investments. Continued macroeconomic weakness and further devaluation of the Venezuelan bolivar (in excess of the rate of inflation) are expected to continue in 2002.

The following comparison of Panamco's first six months of 2002 and 2001 consolidated results of operations excludes the effect of the sale of Kaiser and other nonrecurring items during the first half of 2002 amounting to a benefit of $37.3 million, net of the related tax benefit of $2.5 million. See "Nonrecurring Items / Reorganization Programs" and Note 5 of "Notes to Condensed Consolidated Financial Statements" for further discussion on Panamco's nonrecurring items.

Operating expenses as a percentage of net sales decreased to 39.5% during the six months ended June 30, 2002 from 40.6% in the 2001 period, mainly due to lower goodwill amortization as a result of adopting SFAS No. 142, "Goodwill and Other Intangible Assets" as well as a 24.1% reduction in depreciation expense, primarily the result of lower property and equipment balances.

Operating income decreased 5.3% to $136.5 million during the first six months of 2002 from $144.2 million in the 2001 period. Operating income during the first half of 2002 was negatively impacted by higher raw material costs, particularly in Mexico, and a change in product mix towards more one-way presentations for Panamco as a whole, which yield lower profit margins compared to returnables. Excluding the results from Venezuela, gross profit and operating income for the first half of 2002 increased 1.4% and 11.9%, respectively, from a year ago. Cash operating profit decreased 14.0% (4.5% excluding Venezuela) to $229.7 million in 2002 from $267.0 million in the 2001 period.

Net interest expense decreased 13.4% to $41.0 million during the first half of 2002 from $47.3 million in the 2001 period, mainly resulting from the combination of a 26.3% reduction in gross interest expense to $45.0 million from $61.1 million a year ago, which was partially offset by a 71.0% reduction in interest income. The

reduction in gross interest expense is the result of a $259.4 million reduction in gross debt on a year over year basis.

Other income increased to $7.1 million during the first six months of 2002 from an expense of $3.9 million in the 2001 period, primarily the result of a $14.4 million increase in foreign exchange gains mainly in Brazil, a $2.3 million decline in contingency provisions, offset by a $2.9 million decrease in the gain on the sale of property, plant and equipment.

The consolidated effective income tax rate increased to 36.0% during the first half of 2002 from 30.6% in the 2001 period, primarily the result of a higher proportion of earnings being generated in countries where net operating losses carried forward are not available.

As a result of the foregoing, Panamco recorded net income of $63.1 million during the first half of 2002, or $0.52 per basic and diluted share, compared to net income of $61.6 million, or $0.48 per basic and diluted share during the 2001 period.

Nonrecurring Items / Reorganization Programs

During 2000, Panamco implemented company-wide reorganization programs designed to improve productivity and strengthen our competitive position in the beverage industry. As of June 30, 2002, approximately 7,700 employees have been terminated by Panamco relating to the reorganization programs implemented during 2000. As of June 30, 2002, the reorganization programs have been completed and all remaining balances related to accrued facilities reorganization costs totalling $4.2 million, which includes $1.1 million in cash items and $3.1 million in noncash items as disclosed in Note 5 of "Notes to Consolidated Financial Statements", were reversed into operating income and reflected as Nonrecurring items, net, in Panamco's condensed consolidated statements of operations.

During the first six months of 2002, Panamco recorded a gain on the sale of its 12.1% equity stake in Kaiser as part of a larger transaction in which Molson, Inc. acquired Kaiser and entered into a partnership with Heineken. The sale generated proceeds which include approximately $2.4 million reflected within accounts receivable as of June 30, 2002 and an interest of $18.9 million in Molson stock recorded as an investment (the Molson stock received by Kaiser cannot be sold for a period of two years), and resulted in a gain of $48.6 million, which is included as part of Other income (expense), net. We will continue to distribute Kaiser products in our franchise areas in Brazil and the acquisition of Kaiser will not impact this distribution agreement.

The following table shows a summary of the net charges and benefits recorded in the condensed consolidated financial statements for the three and six months ended June 30, 2002:

	2002		
	Total	Second Quarter	Q
Nonrecurring items, net:			
Cash charges (benefits) (a)	$ 6,178	$ 399	$
Noncash charges (benefits) (b)	(1,123)	(3,146)	
	5,055	(2,747)	
Included in Other income (expense), net:			
Nonoperating charges (benefits) (c)	(39,844)	-	
Gross charges (benefits), net	(34,789)	(2,747)	
Tax provision (benefit)	(2,546)	1,122	
Net charges (benefits), net	$ (37,335)	$ (1,625)	

(a) The cash charges (benefits) relate to severance payments for the termination of approximately 800 employees in Mexico and Venezuela totalling $10.7 million, to excise tax benefits obtained in Brazil totalling $3.4 million, and to the reversal into income of accrued facilities reorganization costs related to cash items (see Note 4 of "Notes to Condensed Consolidated Financial Statements") totalling $1.1 million.

(b) The noncash charges (benefits) relate to the closure of plants in Venezuela totalling $1.7 million, to fixed assets charges in Mexico totalling $0.3 million, and to the reversal into income of accrued facilities reorganization costs related to noncash items (see Note 4 of "Notes to Condensed Consolidated Financial Statements") totalling $3.1 million.

(c) The nonoperating charges (benefits) relate to the gain totalling $48.6 million on the sale of Kaiser, to the sale, at a loss totalling $3.0 million, of the corporate airplane to a related party, and to the payment of excise taxes totalling $5.8 million on soft drink inventories containing high fructose corn syrup in Mexico during the first Quarter. The payment of the excise taxes resulted from a law that was suspended shortly after it was initiated, but subsequently reinstated effective July 15, 2002. Panamco has initiated legal proceedings to seek a refund of the amounts already paid during the first quarter of 2002.

Liquidity and Capital Resources

Cash and cash equivalents decreased $71.6 million during the first six months of 2002 from net cash transactions. Our primary sources of cash for the first half of 2002 were proceeds from sale of investments (sale of Kaiser) totalling $48.8 million, proceeds from bank loans totalling $35.7 million and proceeds from the sale of property, plant and equipment totalling $7.0 million. Our primary uses of cash for the first half of 2002 were the payment of bank loans and other long-term obligations totalling $92.2 million, capital expenditures totalling $32.0 million, share repurchases totalling $22.9 million, purchase of bottles and cases totalling $18.9 million, and payment of shareholder dividends totalling $14.7 million. Cash flow provided by operating activities was $31.0 million for the first half of 2002 compared to $187.9 million in the same period a year ago, mainly due to a negative working capital of $275.8 million, a 63% increase compared to a negative working capital of $168.9 million as of December 31, 2001, primarily the result of a $78.9 million decrease in accounts payable due to increased payments to vendors. A working capital deficiency is not unusual for us and does not indicate a lack of liquidity. We continue to maintain adequate current assets to satisfy current liabilities when they are due and have sufficient liquidity and financial resources to manage our day-to-day cash needs.

Total consolidated indebtedness decreased to $894.5 million at June 30, 2002, from $970.2 million at the end of 2001, consisting of $570.7 million at the holding company level and $323.8 million of subsidiary indebtedness. Of the total debt, 71.9% is long-term. Our U.S. dollar-denominated debt increased to 70.8% at June 30, 2002 from 67.5% at the end of 2001.

There has been no significant change in our contractual obligations during the three months ended June 30, 2002. For a discussion of our contractual obligations, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements", contained in our Form 10-K for the year ended December 31, 2001.

During the second quarter of 2002, Panamco repurchased 914,600 shares for a total amount of $15.7 million (including commissions) under its 2002 Share Repurchase Program. We expect to continue to repurchase shares and to increase the size of the 2002 Share Repurchase Program in the third quarter of 2002.

During the first half of 2002, Panamco recorded a gain on the sale of its 12.1% equity stake in Kaiser as part of a larger transaction in which Molson, Inc. acquired Kaiser and entered into a partnership with Heineken. The sale generated proceeds, which include approximately $2.4 million reflected within accounts receivable as of June 30, 2002 and an interest of $18.9 million in Molson stock recorded as an investment. We will continue to distribute Kaiser products in our franchise areas in Brazil and the acquisition of Kaiser will not impact this distribution agreement.

As previously disclosed in Panamco's Annual Report on Form 10-K, we have made loans to our Chairman and Chief Executive Officer to cover tax obligations triggered by the vesting of restricted stock. In April 2002, such loans were increased by $0.4 million to a total of approximately $1.2 million to reflect the actual tax obligation of such executive.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk during the three months ended June 30, 2002. For a discussion of our exposure to market risk, refer to Item 7A, Quantitative and Qualitative Disclosures about Market Risk, contained in our Form 10-K for the year ended December 31, 2001.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal Proceedings information is addressed in Item 3 of our Form 10-K for the year ended December 31, 2001. There has been no material change to that information required to be disclosed in this Quarterly Report on Form 10-Q.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 3, 2002, we held our annual shareholder's meeting, which was attended, in person or by proxy, by shareholders representing 8,238,466 shares of Panamco's Class B common stock, par value $0.01 per share ("Class B Common Stock") or 95.13% of Panamco's outstanding voting stock. At this meeting, such shareholders: (i) unanimously approved the election of Henry A. Schimberg, Gary P. Fayard, Houston Staton and James J. Postl to serve as directors of the Company until 2005 which elected directors joined the following directors whose terms expired after the 2002 Annual Meeting: Gustavo Cisneros, Oswaldo Cisneros, William Cooling, Luiz Furlan, Craig Jung, Wade Mitchell, Stuart Staton (retired July 2002), and Woods Staton; (ii) unanimously approved the Company's

financial statements for the fiscal year 2001; and (iii) approved (with two votes abstaining) an amendment to Article 4 of the Company's by-laws, the purpose of which was to better clarify the relationship and duties between the Chairman, Chief Executive Officer and President.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) List of Exhibits:

3.1 Amended and Restated By-Laws of Panamerican Beverages, Inc. (as of May 3, 2002).

10.1 Promissory Note, dated as of April 10, 2002, from William G. Cooling to the Company.

(b) Reports on Forms 8-K:

The Company did not file any reports on Form 8-K during the three months ended June 30, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 14, 2002 PANAMERICAN BEVERAGES, INC.
(REGISTRANT)

By: /s/ Mario Gonzalez Padilla

Mario Gonzalez Padilla
Vice President, Chief Financial Officer
and Treasurer
(On behalf of the Registrant and as Chief
Accounting Officer)