PANAMERICAN BEVERAGES INC
Form 10-Q
November 08, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 SEPTEMBER 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	NOT APPLICABLE
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
C/O PANAMCO, L.L.C. 701 WATERFORD WAY, SUITE 800 MIAMI, FLORIDA	33126
(Address of principal executive offices)	(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 October 22, 2002 were:

Class A Common Stock:	110,917,043
Class B Common Stock:	8,659,814
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 s
(Unaudited)

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
ASSETS		
Current assets:		
Cash and equivalents	$ 55,402	$ 133,666
Accounts receivable, net	102,877	136,614
Inventories, net	94,841	103,040
Other current assets	17,892	27,466
Total current assets	271,012	400,786
Investments	20,732	28,522
Property, plant and equipment, net	847,311	1,043,870
Bottles and cases, net	167,673	213,908
Cost in excess of net assets acquired, net	834,796	869,056
Other assets	78,046	136,884
Total assets	$2,219,570	$2,693,026
LIABILITIES		
Current liabilities:		
Accounts payable	$ 176,852	$ 274,164
Current portion of long-term obligations	298,986	75,439
Bank loans	25,123	35,184
Other accrued liabilities	145,071	184,878
Total current liabilities	646,032	569,665
Long-term liabilities:		
Long-term obligations, net of current portion	588,793	859,619
Other liabilities	105,854	162,756
Total long-term liabilities	694,647	1,022,375
Total liabilities	1,340,679	1,592,040

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(Continued)

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

(Continued)

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Commitments and contingencies		
Minority interest in consolidated subsidiaries	23,800	28,541
SHAREHOLDERS' EQUITY		
Class C preferred stock, $0.01 par value; 50,000,000 shares authorized; 2 shares issued and outstanding at September 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 110,917,068 and 113,237,031 shares outstanding at September 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 8,659,819 and 8,681,245 shares outstanding at September 30, 2002 and December 31, 2001, respectively	110	111
Capital in excess of par value	1,592,768	1,591,827
Retained earnings	132,159	138,433
Accumulated other comprehensive loss	(634,676)	(458,341)
	1,091,731	1,273,399
Less 28,434,975 and 26,093,586 treasury shares held at September 30, 2002 and December 31, 2001, respectively, at cost	(236,640)	(200,954)

Total shareholders' equity	855,091	1,072,445
Total liabilities and shareholders' equity	$ 2,219,570	$ 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 share amounts)
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS SEPTEMBE
	2002	2001	2002
Net sales	$ 563,665	$ 633,271	$ 1,811,448
Cost of sales, excluding depreciation and amortization shown separately below	295,200	309,660	913,042
Gross profit	268,465	323,611	898,406
Operating expenses:			
Selling, general and administrative	182,616	189,035	582,870
Depreciation and amortization	97,887	58,236	191,043
Facilities reorganization and other charges	32,415	--	37,470
	312,918	247,271	811,383
Operating (loss) income	(44,453)	76,340	87,023
Other income (expense):			
Interest income	1,055	4,056	5,037
Interest expense	(20,169)	(24,222)	(65,152)
Other income (expense), net	(22,147)	(3,537)	24,811
	(41,261)	(23,703)	(35,304)
(Loss) income before income taxes	(85,714)	52,637	51,719
Provision for (benefit from) income taxes	(1,533)	20,740	32,923

(Loss) income before minority interest	(84,181)	31,897	18,796
Minority interest in earnings of consolidated subsidiaries	516	1,787	3,106
Net (loss) income	$ (84,697)	$ 30,110	$ 15,690
Basic (loss) earnings per share	$ (0.71)	$ 0.24	$ 0.13
Basic weighted average shares outstanding	119,883	124,842	120,921
Diluted (loss) earnings per share	$ (0.71)	$ 0.24	$ 0.13
Diluted weighted average shares outstanding	119,883	126,191	121,474

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)

	NINE MONTHS ENDED SEPTEM	
	2002	2
Net cash provided by operating activities	$ 71,587	$ 240
Cash flows from investing activities:		
Capital expenditures	(82,334)	(56
Purchases of bottles and cases	(27,854)	(32
Purchases of investments	(119)	
Proceeds from sale of investments	49,102	127
Proceeds from sale of property, plant and equipment	13,120	25
Other	--	
Net cash (used in) provided by investing activities	(48,085)	64
Cash flows from financing activities:		

Payment of bank loans and other long-term obligations	(96,128)	(407
Proceeds from bank loans and other long-term obligations	70,500	151
Issuance of capital and treasury stock	1,952	9
Share repurchase	(36,697)	(109
Payment of dividends to minority interest	(2,490)	(1
Payment of dividends to shareholders	(21,964)	(22
Other	3,653	
Net cash used in financing activities	(81,174)	(379
Effect of exchange rate changes on cash and cash equivalents	(20,592)	(12
Net decrease in cash and equivalents	(78,264)	(87
Cash and equivalents at beginning of period	133,666	191
Cash and equivalents at end of period	$ 55,402	$ 104
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid during the year for:		
Interest (net of capitalized interest)	$ 51,170	$ 81
Income taxes	$ 60,619	$ 72
NONCASH ACTIVITIES:		
Write-off of fixed assets	$ 68,005	$

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 share amounts)
(Unaudited)

(1) BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements included herein have been prepared by Panamerican Beverages, Inc. and Subsidiaries (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 September 30, 2002 and December 31, 2001, and the consolidated results of operations for the three and nine months ended September 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 as permitted by 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. Except for the Company's 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," the Company has not made any changes in any of the Company's critical accounting policies during the first nine months of 2002, nor has the Company made any material changes in any of the critical accounting estimates underlying these accounting policies during the first nine months of 2002.

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. During 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 September 30, 2002 and 2001, the Company recorded in its condensed consolidated statements of operations a net translation gain, for the Venezuelan subsidiary, of $2.6 million and $1.3 million, respectively. For the nine months ended September 30, 2002 and 2001, the Company recorded in its condensed consolidated statements of operations a net translation gain, for the Venezuelan subsidiary, of $12.9 million and $2.6 million, respectively.

(2) 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 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 for exit or disposal activities initiated after December 31, 2002.

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
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(Balances in the tables are stated in thousands of
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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 this statement 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 $5.4 million and $13.8 million of selling expenses, which were previously classified as selling and distribution expenses in the condensed consolidated statements of operations for the three and nine months ended September 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 September 30, 2001, amortization expense would have been lowered by $6.6 million and net income would have increased $6.2 million (or $0.05 per diluted share) to $36.3 million. For the nine months ended September 30, 2001, amortization expense would have been lowered by $19.9 million and net income would have increased $18.6 million (or $0.15 per diluted share) to $110.3 million.

The change in the carrying amount of costs in excess of acquired businesses, net ("goodwill") for the nine months ending September 30, 2002 is as follows:

	TOTAL
Balance as of December 31, 2001	$ 869,056
Translation adjustment	(34,260)
Balance as of September 30, 2002	$ 834,796

(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 SEPTEMBER 30,		NINE SE
	2002	2001	2002
Numerator:			
Net income (loss)	$ (84,697)	$ 30,110	15,6
Denominator (in thousands):			
Denominator for basic earnings per share	119,883	124,842	120,9
Effect of dilutive securities:			
Options to purchase common stock	-	1,349	5
Denominator for diluted earnings per share	119,883	126,191	121,4
Earnings (loss) per share:			
Basic	$ (0.71)	$ 0.24	$ 0.
Diluted	$ (0.71)	$ 0.24	$ 0.

The Company declared and paid cash dividends of $0.06 per share of common stock for the three months ended September 30, 2002 and a total of $0.18 per share of common stock for the nine months ended September 30, 2002.

(4) FACILITIES REORGANIZATION AND OTHER CHARGES

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 were 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 charges and $3.1 million in noncash charges were reversed into operating income and reflected as Facilities reorganization and other charges in the Company's condensed consolidated statements of operations.

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 includes an interest of $18.2 million in Molson stock recorded as an investment (the Molson stock received by Kaiser cannot be sold for a period of two years). This sale 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
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During the third quarter of 2002, the Company recorded $98.4 million of facilities reorganiz
million, net of tax benefits) resulting primarily from the deterioration of macroeconomic co
primarily in Venezuela, in which the Company operates. These charges consist of $14.4 millio
the Company's operations, $69.1 million of asset write-offs and impairment charges primarily
operations and $14.9 million related to obsolete machinery and discontinued product componen
approximately 1,200 of the 2,100 employees have been terminated by the Company resulting in
million.

The following table shows a summary of facilities reorganization and other charges recorded
financial statements for the following periods:

	2002		
	TOTAL	THIRD QUARTER	SECON QUARTE
Cost of sales	$ 3,221 a)	$ 3,221	$
Selling, general and administrative	2,476 b)	2,476	
Facilities reorganization and other charges	20,562 c)	14,384	

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

Total cash charges	26,259	20,081	
Facilities reorganization and other charges (benefits)	16,908 d)	18,031	(3,
Depreciation and amortization	51,097 e)	51,097	
Total noncash charges (benefits)	68,005	69,128	(3,
Total operating charges (benefits)	94,264	89,209	(2,
Included in Other income (expense), net:			
Nonoperating charges (benefits)	(30,635)f)	9,209	-
Gross charges (benefits), net	63,629	98,418	(2,
Tax provision (benefit)	(18,250)	(15,704)	1,
Net charges (benefits), net	$ 45,379	$ 82,714	$ (1,

a) Cost of sales charges relate to the write-off of raw materials inventory totalling $0.6 million and obsolete spare parts for production machinery totalling $2.6 million.

b) Selling, general and administrative charges relate to the write-off of obsolete promotional materials totalling $0.3 million, obsolete spare parts totalling $1.0 million and miscellaneous administrative expenses totalling $1.2 million.

c) The cash facilities reorganization and other charges relate to severance charges for the termination of approximately 2,100 employees in Mexico, Venezuela and Colombia totalling $25.0 million, offset by excise tax benefits obtained in Brazil totalling $3.4 million, and the reversal into income of accrued facilities reorganization costs related to cash items totalling $1.1 million.

d) The noncash facilities reorganization and other charges (benefits) relate to plant closings and related disposal of property, plant and equipment in Venezuela and Mexico totalling $7.9 million and $4.1 million, respectively, the loss on sale of unproductive assets in Venezuela totalling $8.0 million, offset by the reversal into income of accrued facilities reorganization costs related to noncash items totalling $3.1 million.

e) Depreciation and amortization charges relate to the write-off of obsolete property, plant and equipment in Mexico, Venezuela and Colombia totalling $43.8 million, of which approximately 83% occurred in Venezuela, 11% in Mexico and 6% in Colombia and the write-off of bottles and cases in Mexico, Venezuela and Colombia totalling $7.3 million, of which approximately 76% occurred in Venezuela, 18% in Mexico and 6% in Colombia.

f) The nonoperating charges (benefits) relate to the gain totalling $48.6 million on the sale of Kaiser, offset by the loss on disposal of nonoperating property, plant and equipment, mostly in Venezuela, totalling $4.4 million, the sale, at a loss totalling $3.0 million, of the corporate airplane to a related party, the loss on disposal of investments, mostly in Colombia, totalling $1.4 million, a provision for labor contingencies totalling $0.9 million, and the payment of excise taxes totalling $5.8 million on soft drink inventories containing high fructose corn syrup in Mexico during the first quarter and the accrual of $2.5 million in the third 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 and fourth quarters of 2002.

As a result of the above, the Company's income for the nine months ended September 30, 2002 was impacted by the facilities reorganization and other charges totalling $45.4 million, net of the related tax benefit of $18.3 million.

(5) 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.

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

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Accounts receivable:		
Subsidiaries of Coca-Cola	$17,416	$14,025
Subsidiaries of Kaiser	1,064	2,485
	$18,480	$16,510
Accounts payable:		
Subsidiaries of Coca-Cola	$16,500	$21,842
Productos de Vidrio, S.A	690	2,912
Central Azucarero Portuguesa, C.A.	2,262	1,950
Other	2,127	2,331
	$21,579	$29,035

PANAMERICAN BEVERAGES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Balances in the tables are stated in thousands of
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(Unaudited)

The Company had the following significant transactions with related parties:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE SE
	2002	2001	2002
Income:			
Marketing expense support from Coca-Cola (recorded net against marketing expenses)	$ 7,216	$ 6,708	$ 22,3
Kaiser beer distribution fees	671	843	2,6
Other	54	86	3
	$ 7,941	$ 7,637	$ 25,3
Expenses:			
Purchases of concentrate from Coca-Cola	$ 99,502	$ 102,542	$ 255,7
Purchases of beer	8,425	12,552	28,6
Purchases of other inventories	35,344	33,261	86,9
	$ 143,271	$ 148,355	$ 371,3
Capital incentives received in cash	$ -	$ 544	$ 1,0

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.

On October 7, 2002, the Company announced that it had reached various agreements with Coca-Cola to convert its Risco water volume in Mexico to Coca-Cola's brand Ciel beginning in the first quarter of 2003. The conversion is done in exchange for total cash consideration of $65.0 million to be paid by Coca-Cola, with $3.6 million of such amount to be paid in the fourth quarter of 2002, $56.0 million of such amount to be paid in the first quarter of 2003 and the remaining amount to be paid in the following four years. Revenue will be deferred over the life of the contract, which is ten years.

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

(6) INVENTORIES

Inventories consist of:	SEPTEMBER 30, 2002	DECEMBER 31, 2
Bottled beverages	$ 26,732	$ 28,335
Raw materials	50,672	51,837
Spare parts and supplies	25,538	29,637
	102,942	109,809
Less - Allowance for obsolete and slow moving items	8,101	6,769
	$ 94,841	$103,040

(7) SHARE REPURCHASE PROGRAM

The Company has authorized a total of $40.0 million for repurchases under the Company's 2002 Share Repurchase Program. During the third quarter of 2002, the Company repurchased 1,111,300 shares for a total amount of $13.8 million (including commissions) under the Company's 2002 Share Repurchase Program with the total amount of shares repurchased under the 2002 Share Repurchase Program totalling 2,468,600 for a total amount of $36.8 million (including commissions).

(8) COMPREHENSIVE INCOME (LOSS)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
Net (loss) income	$ (84,697)	$ 30,110	$ 15,690	$ 91,673
Other comprehensive (loss) income:				

Translation adjustments	(90,882)	(45,408)	(176,335)	(60,380)
Unrealized losses on derivative financial instruments	-	(3,274)	-	(10,968)
Comprehensive (loss) income	$(175,579)	$ (18,572)	$ (160,645)	$ 20,325

(9) DERIVATIVE INSTRUMENTS

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, "Accounting for Derivative Instruments and Hedging Activities," 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 $0.1 million and $1.0 million, included in Other income (expense) net, for the three and nine months ended September 30, 2002, respectively, in the Company's condensed consolidated statements of operations. As of September 30, 2002, the fair value of the Swap was a liability of $3.0 million and is recorded in Accounts payable.

The Company has a fixed-to-floating interest rate swap, expiring in April 2003, with a total notional amount of $150.0 million, which exchanges a fixed interest rate of 8.125% for a LIBOR-based rate. As of September 30, 2002, the fair value of the interest rate swap was an asset of $0.8 million and is recorded within Other current assets. The Company recorded approximately $0.2 million and $0.4 million, included within Interest income, for the three and nine months ended September 30, 2002, respectively, in the Company's condensed consolidated financial statements.

The Company uses currency swap arrangements to hedge exchange rate exposure arising from the Company's operations in its international subsidiaries. During the nine months ended September 30, 2002, the Company held foreign currency forward purchase contracts relating to raw material purchases in Brazil, with total notional amounts of approximately $16.6 million, which exchange Brazilian reales for U.S. dollars. The contracts had no material impact on the Company's condensed consolidated statements of operations for the three and nine months ended September 30, 2002. As of September 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. The Company recognized an unrealized loss of approximately $0.1 million and $0.8 million, included in Other income (expense) net, for the three and nine months ended September 30, 2002, respectively, in the Company's condensed consolidated statements of operations. As of September 30, 2002, the fair value of the foreign currency forward purchase contract was a liability of $0.8 million and is recorded within Other current liabilities.

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. The Company recognized an unrealized loss of approximately $4.7 million and $6.4 million, included in Other income (expense) net, for the three and nine months ended September 30, 2002, respectively, in the Company's condensed consolidated statements of operations. As of September 30, 2002, the fair value of the foreign currency forward purchase contract was a liability of $6.4 million and is recorded within Other current liabilities. During the third quarter of 2002, the Company began to unwind these foreign currency forward purchase contracts. As of September 30, 2002, the Company has unwound approximately 60% of these transactions.

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 $18.1 million. The Company recognized an unrealized holding gain of approximately $33 thousand and $0.4 million, included in Other income (expense) net, for the three and nine months ended September 30, 2002, respectively, in the Company's condensed consolidated statements of operations. As of September 30, 2002, the fair value of the equity forward purchase contract was a liability of $0.4 million and is recorded within Other current liabilities.

During the third quarter, the Company entered into a foreign currency forward contract in Venezuela, expiring during the fourth quarter of 2002 for a notional amount of approximately $5.0 million.

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

As of September 30, 2002, the Company recognized an unrealized loss of approximately $0.2 million recorded in Other income (expense) net in the Company's condensed consolidated statements of operations. As of September 30, 2002, the fair value of the foreign currency forward contract was a liability of $0.2 million and is recorded within Other current liabilities.

(10) 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 the Company's Headquarters include eliminating entries that are used in consolidating the unaudited financial statements.

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).

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:

	NINE MONTHS ENDED SEPTEMBER 30, 2			
	NOLAD	COLOMBIA	VENEZUELA	BRAZIL
Net sales	$985,875	$276,764	$271,304	$277,505
Operating income (loss)	152,934	10,414	(87,910)	13,028
Depreciation and amortization	61,153	39,234	80,971	10,932
Capital expenditures	61,017	6,074	10,396	4,847
	SEPTEMBER 30, 2002			
Long-lived assets	$655,666	$234,780	$249,518	$102,827
Total assets	765,009	280,878	295,942	207,216

	NINE MONTHS ENDED SEPTEMBER 30			
	NOLAD	COLOMBIA	VENEZUELA	BRAZIL

Net sales	$957,048	$274,846	$409,408	$302,977
Operating income (loss)	176,893	17,502	28,252	10,882
Depreciation and amortization	62,460	42,379	45,572	15,638
Capital expenditures	41,286	4,341	6,932	3,576
			DECEMBER 31, 2001	
Long-lived assets	$690,155	$327,059	$339,512	$189,279
Total assets	853,458	383,188	419,935	352,883

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

(11) SUBSEQUENT EVENTS

In September 2002, the Company formed a joint venture with Heineken N.V. and Florida Ice and Farm Company S.A. ("Fifco") to acquire the Coca-Cola bottler and a beer company in the Republic of Panama. On October 2, 2002, the joint venture entity, CA Beverages, Inc. ("CA Beverages"), acquired: (i) direct control of Coca Cola de Panama Compania Embotelladora, S.A. ("Coca-Cola Panama") through the purchase of fifty percent plus one share of the capital stock of Coca-Cola Panama; and (ii) indirect control of Cervecerias Baru-Panama, S.A. ("Cervecerias Baru") which is majority-owned (51.5%) by Coca-Cola Panama. As the second step of this transaction, CA Beverages is seeking to obtain up to 100% of the capital stock of Coca-Cola Panama and Cervecerias Baru through public tender offers in Panama, which are expected to be completed in the fourth quarter of 2002. Upon completion of the public tender offers, CA Beverages intends to sell its stake in Coca-Cola Panama to the Company (and its stake in Cervecerias Baru to Heineken and Fifco) in exchange for the cancellation of the funds that the Company has advanced to CA Beverages to acquire Coca-Cola Panama and Cervecerias Baru. The purchase price for 100% of the capital stock of Coca-Cola Panama is expected to be approximately $61.3 million. The Company has financed the Panama acquisition primarily through a $60.0 million loan from ING Bank that matures on April 1, 2003 and bears interest at an average annual rate of LIBOR plus 0.85%.

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

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 Company's Headquarters 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 SEPTEMBER 30,		NINE MONTH SEPTEMB
	2002	2001	2002
STATEMENT OF OPERATIONS DATA:			
Net sales	$ 324,591	$ 326,810	$ 985,875
Cost of sales, excluding depreciation and amortization shown separately below	148,327	144,961	447,117
Gross profit	176,264	181,849	538,758
Operating expenses:			
Selling, general and administrative	101,963	102,007	315,967
Depreciation and amortization	25,265	19,374	61,153
Facilities reorganization and other charges	6,728	--	8,704
	133,956	121,381	385,824
Operating income	42,308	60,468	152,934
Interest expense, net	(5,401)	(2,661)	(17,126)
Other income (expense), net	(3,021)	952	(5,357)
Income before income taxes	33,886	58,759	130,451
Provision for income taxes	11,077	18,841	43,177
Income before minority interest	22,809	39,918	87,274
Minority interest in Panamco Mexico subsidiaries	648	1,310	2,582
Net income attributable to Panamco NOLAD	22,161	38,608	84,692
Minority interest in Panamco Mexico holding company	307	620	1,222

Net income attributable to Panamco	$ 21,854	$ 37,988	$ 83,470
Cash operating profit	$ 71,338	$ 79,842	$ 215,048
UNIT CASE SALES VOLUME GROWTH:			
Soft drinks	3.3%		3.8%
Water	5.9%		8.1%
Other products	33.7%		81.2%
Total growth	4.5%		5.9%

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMB
	2002	2001	2002
STATEMENT OF OPERATIONS DATA:			
Net sales	$ 85,612	$ 91,694	$ 276,764
Cost of sales, excluding depreciation and amortization shown separately below	40,974	43,771	129,595
Gross profit	44,638	47,923	147,169
Operating expenses:			
Selling, general and administrative	30,448	25,913	95,254
Depreciation and amortization	14,323	14,360	39,234
Facilities reorganization and other charges	2,267	--	2,267
	47,038	40,273	136,755
Operating (loss) income	(2,400)	7,650	10,414
Interest expense, net	(1,675)	(2,218)	(6,890)
Other income (expense), net	(3,966)	(94)	(3,322)
(Loss) income before income taxes	(8,041)	5,338	202
Provision for (benefit from) income taxes	(2,851)	1,729	(880)

(Loss) income before minority interest	(5,190)	3,609	1,082
Minority interest in Panamco Colombia subsidiaries holding company	46	29	126
Net (loss) income attributable to Panamco Colombia holding company	(5,236)	3,580	956
Minority interest in Panamco Colombia	(144)	97	26
Net (loss) income attributable to Panamco	$ (5,092)	$ 3,483	$ 930
Cash operating profit	$ 11,923	$ 22,010	$ 49,648

UNIT CASE SALES VOLUME GROWTH (DECLINE):			
Soft drinks	(4.3%)		(4.1%)
Water	11.1%		(9.6%)
Other products	(2.9%)		12.9%
Total decline	(1.6%)		(5.1%)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMB
	2002	2001	2002
STATEMENT OF OPERATIONS DATA:			
Net sales	$ 77,266	$ 134,893	$ 271,304
Cost of sales, excluding depreciation and amortization shown separately below	53,939	68,023	160,900
Gross profit	23,327	66,870	110,404
Operating expenses:			
Selling, general and administrative	28,322	43,332	92,692
Depreciation and amortization	55,660	15,152	80,971
Facilities reorganization and other charges	20,570	--	24,651

	104,552	58,484	198,314
Operating (loss) income	(81,225)	8,386	(87,910)
Interest expense, net	(2,099)	(2,409)	(5,958)
Other income (expense), net	(5,460)	1,217	(2,727)
(Loss) income before income taxes	(88,784)	7,194	(96,595)
Provision for (benefit from) income taxes	(8,775)	35	(12,195)
Net (loss) income attributable to Panamco	$ (80,009)	$ 7,159	$ (84,400)
Cash operating profit (loss)	$ (11,299)	$ 23,538	$ 9,008
UNIT CASE SALES VOLUME GROWTH (DECLINE):			
Soft drinks	1.3%		(8.1%)
Water	(13.2%)		(20.1%)
Beer	(31.1%)		(33.9%)
Other products	59.0%		40.7%
Total growth (decline)	0.3%		(8.7%)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTH SEPTEMB
	2002	2001	2002
STATEMENT OF OPERATIONS DATA:			
Net sales	$ 76,196	$ 79,874	$ 277,505
Cost of sales, excluding depreciation and amortization shown separately below	51,863	53,917	178,129
Gross profit	24,333	25,957	99,376
Operating expenses:			
Selling, general and administrative	22,455	20,788	78,797
Depreciation and amortization	3,070	4,364	10,932
Facilities reorganization and other charges (benefits)	--	--	(3,381)
	25,525	25,152	86,348

Operating (loss) income	(1,192)	805	13,028
Interest expense, net	(213)	1,871	(642)
Other income (expense), net	(3,662)	(2,468)	46,316
(Loss) income before income taxes	(5,067)	208	58,702
Provision for (benefit from) income taxes	(1,429)	(435)	2,478
(Loss) income before minority interest	(3,638)	643	56,224
Minority interest in Panamco Brazil holding company	(116)	4	42
Net (loss) income attributable to Panamco	$ (3,522)	$ 639	$ 56,182
Cash operating profit	$ 1,878	$ 5,169	$ 23,960

UNIT CASE SALES VOLUME GROWTH (DECLINE):			
Soft drinks	4.5%		(5.1%)
Water	(12.9%)		(6.0%)
Beer	(12.2%)		(14.9%)
Other products	71.1%		243.7%
Total growth (decline)	0.1%		(6.9%)

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 September 30, 2002 and December 31, 2001 and for the three and nine months ended September 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 ("COP") means operating income plus depreciation and amortization and operating noncash facilities reorganization and other charges. Because COP could be calculated differently by other companies, the presentation herein may not be comparable to other similarly titled measures of other companies. COP is not intended to represent and should not be considered more meaningful than, or as an alternative to, measures of operating performance as determined in accordance with accounting principles generally accepted in the United States of America.

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 nine months of 2002, nor have we made any material changes in any of the critical accounting estimates underlying these accounting policies during the first nine months 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 for exit or disposal activities initiated after December 31, 2002.

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 this statement will have on our financial position and results of operations.

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

Net sales for the third quarter ended September 30, 2002 decreased 11.0% to $563.7 million from $633.3 million in the third quarter of 2001. Net sales was positively impacted by strong volume growth, of 4.5%, in NOLAD, but currency weakness in Mexico, Brazil and, particularly, Venezuela, negatively impacted net sales for the quarter.

The following comparison of Panamco's third quarter 2002 and 2001 consolidated results of operations excludes the effect of facilities reorganization and other charges, during the third quarter of 2002, amounting to $82.7 million, net of the related tax benefit of $15.7 million. See Note 4 of "Notes to Condensed Consolidated Financial Statements" for further discussion on Panamco's facilities reorganization and other charges.

Cost of sales as a percentage of net sales increased to 51.8% during the third quarter of 2002 from 48.9% 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 on a percentage basis, when compared to returnables.

Cost of goods sold was also affected in the third quarter of 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, which resulted in Panamco incurring additional costs resulting from the price differential between sugar and high fructose syrup, as we stopped using fructose, and the tax on sales of 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 2002. Panamco has initiated legal proceedings to seek a refund of the amounts already paid during the first and fourth quarters.

Gross profit as a percentage of net sales decreased to 48.2% during the third quarter of 2002 from 51.1% in the third quarter of 2001, mainly the result of a higher cost of raw materials and the aforementioned change in product mix.

Panamco Venezuela incurred an operating loss of approximately $15.8 million during the third quarter of 2002, primarily due to a) Venezuela's macroeconomic, political and social environments, which continued to deteriorate with the currency devaluing approximately 90%, on an average, from a year ago and consumers continuing to lose purchasing power, b) Panamco's policy of matching our competitor's aggressive pricing, and 3) packaging materials and sugar, which are dollar denominated costs, which increased significantly against a base of local currency denominated revenues. Panamco Venezuela 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 for the remainder of 2002 into 2003.

Operating expenses as a percentage of net sales increased slightly to 40.3% during the third quarter of 2002 from 39.0% in the 2001 period, due mainly to the impact of a larger decrease in net sales when compared to the decrease in operating expenses. For the three months ended September 30, 2002, operating expenses totalled $226.9 million compared to $247.3 million for the same period in 2001. The decrease in operating expenses is due in part to lower goodwill amortization totalling $6.6 million as a result of adopting SFAS No. 142, "Goodwill and Other Intangible Assets" as well as a 9.5% reduction in depreciation expense, primarily the result of lower property, plant and equipment balances.

Operating income decreased 41.4% to $44.8 million during the third quarter of 2002 from $76.3 million in the 2001 period. Operating income during the quarter was negatively impacted by higher raw material costs, mainly as a result of currency devaluation, particularly in Mexico and Venezuela, a change in product mix towards more one-way presentations for Panamco as a whole, which yield lower profit margins, on a percentage basis, compared to returnables and the impact of currency devaluation in Venezuela on net sales. Cash operating profit decreased 32.0% to $91.6 million in 2002 from $134.6 million in the third quarter of 2001.

Net interest expense decreased 5.2% to $19.1 million during the third quarter of 2002 from $20.2 million in the 2001 period, mainly resulting from the combination of a 16.7% reduction in gross interest expense to $20.2 million from $24.2 million a year ago, which was partially offset by a 74.0% reduction in interest income. The reduction in gross interest expense is the result of a $76.8 million reduction in gross debt on a year over year basis as well as a reduction of the interest rates applicable to certain of the Company's variable rate debt.

Other expense, net increased to $12.9 million during the third quarter of 2002 from an expense of $3.5 million in the 2001 period, primarily the result of a $5.0 million unrealized loss on derivative instruments, and a $3.5 million charge related to an emergency national security tax, equal to 1.2% of liquid assets, instituted by the Colombian government during the third quarter.

The consolidated effective income tax rate increased to 111.5% during the third quarter of 2002 from 39.4% in the 2001 period, resulting from losses generated in jurisdictions, primarily Venezuela, where existing net operating loss carryforwards preclude recognition of additional tax benefits.

As a result of the foregoing, Panamco recorded a net loss of $2.0 million during the third quarter of 2002, or ($0.02) per basic and diluted share, and including facilities reorganization and other charges, a net loss of $84.7 million, or ($0.71) per basic and diluted share, compared to net income of $30.1 million, or $0.24 per basic and diluted share during the 2001 period.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

Net sales for the nine months ended September 30, 2002 decreased 6.8% to $1,811.4 million from $1,944.3 million in the first nine months of 2001. Net sales was negatively impacted by consolidated volume decline of 1.3%, which was offset by strong volume growth of 5.9% in NOLAD. However, currency weakness in Brazil and, particularly, Venezuela, as well as declining industry volumes in Venezuela and Colombia negatively impacted net sales.

The following comparison of Panamco's first nine months of 2002 and 2001 consolidated results of operations excludes the effect of facilities reorganization and other charges during the first nine months of 2002 amounting to $45.4 million, net of the related tax benefit of $18.3 million. See Note 4 of "Notes to Condensed Consolidated Financial Statements" for further discussion on Panamco's facilities reorganization and other charges.

Cost of sales as a percentage of net sales increased to 50.2% during the first nine months of 2002 from 48.6% 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 on a percentage basis, compared to returnables.

Cost of goods sold was also affected during the first nine months of 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, which resulted in Panamco incurring additional costs resulting from the price differential between sugar and high fructose syrup, as we stopped using fructose, and the tax on sales of 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 2002. Panamco has initiated legal proceedings to seek a refund of the amounts already paid during the first and fourth quarters of 2002.

Gross profit as a percentage of net sales decreased to 49.8% during the first nine months of 2002 from 51.4% in the 2001 period, mainly the result of a higher cost of raw materials and packaging and the change in product mix.

During the first nine months of 2002, Venezuela's macroeconomic, political and social environments continued to deteriorate, with the currency devaluing approximately 94% for the nine months and consumers continuing to lose purchasing power. This, together with non-competitive pricing, resulted in an operating loss for Panamco Venezuela totalling $18.4 million. Moreover, both packaging materials and sugar are dollar denominated costs, which increased significantly against a base of local currency denominated revenues. Panamco Venezuela 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 for the remainder of 2002 into 2003.

Operating expenses as a percentage of net sales decreased to 39.8% during the nine months ended September 30, 2002 from 40.1% in the 2001 period, mainly due to the impact of the decrease in net sales offset by decreases in operating expenses. For the nine months ended September 30, 2002, operating expenses totalled $720.3 million compared to $779.6 million for the comparable 2001 period. The decrease in operating expenses is due in part to lower goodwill amortization, totalling $19.9 million, as a result of adopting SFAS No. 142,

"Goodwill and Other Intangible Assets" as well as a 13.2% reduction in depreciation expense, primarily the result of lower property, plant and equipment balances.

Operating income decreased 17.8% to $181.3 million during the first nine months of 2002 from $220.5 million in the 2001 period. Operating income during the first nine months of 2002 was negatively impacted by higher raw material costs, mainly as a result of currency devaluation, particularly in Mexico and Venezuela, and a change in product mix towards more one-way presentations for Panamco as a whole, which yield lower profit margins on a percentage basis, compared to returnables. Cash operating profit decreased 20.0% to $321.2 million in 2002 from $401.6 million in the 2001 period.

Net interest expense decreased 10.9% to $60.1 million during the first nine months of 2002 from $67.5 million in the 2001 period, mainly resulting from the combination of a 23.6% reduction in gross interest expense to $65.2 million from $85.3 million a year ago, which was partially offset by a 71.7% reduction in interest income. The reduction in gross interest expense is the result of a $76.8 million reduction in gross debt on a year over year basis as well as a reduction of the interest rate applicable to certain of the Company's variable rate debt.

Other expense decreased to $5.8 million during the first nine months of 2002 from an expense of $7.5 million in the 2001 period, primarily the result of a $16.7 million increase in foreign exchange gains mainly in Brazil, and a decrease in contingency provisions of $2.0 million, offset by a $8.0 million unrealized loss related to derivative instruments, a $5.3 million decline in gains from property, plant and equipment sales primarily related to sales of land in Venezuela during 2001, and $3.5 million related to an emergency national security tax, equal to 1.2% of liquid assets, instituted by the Colombian government during the third quarter.

The consolidated effective income tax rate increased to 44.4% during the first nine months of 2002 from 33.8% 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.

As a result of the foregoing, Panamco recorded net income of $61.1 million during the first nine months of 2002, or $0.51 per basic and $0.50 per diluted share, and including facilities reorganization and other charges, net income of $15.7 million or $0.13 per basic and diluted share, compared to net income of $91.7 million, or $0.72 per basic and diluted share during the 2001 period.

FACILITIES REORGANIZATION AND OTHER CHARGES

During 2000, we 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 were 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 were reversed into operating income and reflected as Facilities reorganization and other charges in Panamco's condensed consolidated statements of operations.

During the first quarter of 2002, we recorded a gain on the sale of our 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 includes an interest of $18.2 million in Molson stock recorded as an investment (the Molson stock received by Kaiser cannot be sold for a period of two years). This sale resulted in a gain of $48.6 million, which is included as part of Other income (expense), net, in Panamco's condensed consolidated statements of operations. Panamco will continue to distribute Kaiser products in its franchise areas in Brazil and the acquisition of Kaiser will not impact this distribution agreement.

During the third quarter of 2002, we recorded $98.4 million of facilities reorganization and other charges ($82.7 million, net of tax benefits) resulting primarily from the deterioration of macroeconomic

conditions in some of the countries, primarily in Venezuela, in which Panamco operates. These charges consist of $14.4 million of severance charges throughout our operations, $69.1 million of asset write-offs and impairment charges primarily in our Venezuelan operations and $14.9 million related to obsolete machinery and discontinued product components. As of September 30, 2002, approximately 1,200 of the 2,100 employees have been terminated by Panamco resulting in severance payments totalling $16.9 million.

The following table shows a summary of facilities reorganization and other charges recorded in the condensed consolidated financial statements for the following periods:

2002

	TOTAL		THIRD QUARTER
Cost of sales	$ 3,221	a)	$ 3,221
Selling, general and administrative	2,476	b)	2,476
Facilities reorganization and other charges	20,562	c)	14,384
Total cash charges	26,259		20,081
Facilities reorganization and other charges (benefits)	16,908	d)	18,031
Depreciation and amortization	51,097	e)	51,097
Total noncash charges (benefits)	68,005		69,128
Total operating charges (benefits)	94,264		89,209
Included in Other income (expense), net:			
Nonoperating charges (benefits)	(30,635)	f)	9,209
Gross charges (benefits), net	63,629		98,418
Tax provision (benefit)	(18,250)		(15,704)
Net charges (benefits), net	$ 45,379		$ 82,714

a) Cost of sales charges relate to the write-off of raw materials inventory totalling $0.6 million and obsolete spare parts for production machinery totalling $2.6 million.

b) Selling, general and administrative charges relate to the write-off of obsolete promotional materials totalling $0.3 million, obsolete spare parts totalling $1.0 million and miscellaneous administrative expenses totalling $1.2 million.

c) The cash facilities reorganization and other charges relate to severance charges for the termination of approximately 2,100 employees in Mexico, Venezuela and Colombia totalling $25.0 million, offset by excise tax benefits obtained in Brazil totalling $3.4 million, and the reversal into income of accrued facilities reorganization costs related to cash items totalling $1.1 million.

d) The noncash facilities reorganization and other charges (benefits) relate to plant closings and related disposal of property, plant and equipment in Venezuela and Mexico totalling $7.9 million and $4.1 million, respectively, the loss on sale of unproductive assets in Venezuela totalling $8.0 million, offset by the reversal into income of accrued facilities reorganization costs related to noncash items totalling $3.1 million.

e) Depreciation and amortization charges relate to the write-off of obsolete property, plant and equipment in Mexico, Venezuela and Colombia totalling $43.8 million, of which approximately 83% occurred in Venezuela, 11% in Mexico and 6% in Colombia and the write-off of bottles and cases in Mexico, Venezuela and Colombia totalling $7.3 million, of which approximately 76% occurred in Venezuela, 18% in Mexico and 6% in Colombia.

f) The nonoperating charges (benefits) relate to the gain totalling $48.6 million on the sale of Kaiser, offset by the loss on disposal of nonoperating property, plant and equipment, mostly in Venezuela, totalling $4.4 million, the sale, at a loss totalling $3.0 million, of the corporate airplane to a related party, the loss on disposal of investments, mostly in Colombia, totalling $1.4 million, a provision for

labor contingencies totalling $0.9 million, and the payment of excise taxes totalling $5.8 million on soft drink inventories containing high fructose corn syrup in Mexico during the first quarter and the accrual of $2.5 million in the third 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 and fourth quarters of 2002.

As a result of the above, Panamco's income for the nine months ended September 30, 2002 was impacted by the facilities reorganization and other charges totalling $45.4 million, net of the related tax benefit of $18.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased $78.3 million during the first nine months of 2002 from net cash transactions. Our primary sources of cash for the first nine months of 2002 were proceeds from sale of investments (sale of Kaiser) totalling $49.1 million, proceeds from bank loans totalling $70.5 million and proceeds from the sale of property, plant and equipment totalling $13.1 million. Our primary uses of cash for the first nine months of 2002 were the payment of bank loans and other long-term obligations totalling $96.1 million, capital expenditures totalling $82.3 million, which includes the termination of operating leases throughout the Company's operations totalling $22.0 million, share repurchases totalling $34.7 million, net of issuance of shares related to employee options exercised totalling $2.0 million, purchase of bottles and cases totalling $27.9 million and payment of shareholder dividends totalling $22.0 million. Cash flow provided by operating activities was $71.6 million for the first nine months of 2002 compared to $240.9 million in the same period a year ago, mainly due to a negative working capital of $375.0 million as of September 30, 2002, a 122.1% increase compared to a negative working capital of $168.9 million as of December 31, 2001. This increase is primarily the result of a $223.6 increase in current portion of long-term obligations due to a reclassification from long-term obligations to current portion, offset by a decrease in bank loans totalling $10.1 million. 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 $912.9 million at September 30, 2002, from $970.2 million at the end of 2001, consisting of $590.8 million at the holding company level and $322.1 million of subsidiary indebtedness. Of the total debt, 64.5% is long-term. Our U.S. dollar-denominated debt increased to 74.3% at September 30, 2002 from 67.5% at the end of 2001.

There has been no significant change in our contractual obligations during the nine months ended September 30, 2002, other than the termination of operating leases throughout Panamco's operations totalling $22.0 million and the debt incurred in relation to the Panama acquisition totalling $60.0 million (see Note 11 of "Notes to condensed consolidated financial statements"). 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.

We have authorized a total of $40.0 million for repurchases under Panamco's 2002 Share Repurchase Program. During the third quarter of 2002, we repurchased 1,111,300 shares for a total amount of $13.8 million (including commissions) under Panamco's 2002 Share Repurchase Program with the total amount of shares repurchased under the 2002 Share Repurchase Program totalling 2,468,600 for a total amount of $36.8 million (including commissions).

During the first nine 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 an interest of $18.2 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.

Loans totalling $1.2 million to our former Chairman and Chief Executive Officer became due upon his termination in September 2002. Such loans were repaid in full in September 2002.

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 September 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.

ITEM 4. CONTROLS AND PROCEDURES

Panamco's Chief Executive Officer and Chief Financial Officer (collectively, the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures for Panamco. Such officers have concluded (based upon their evaluation of these controls and procedures as of a date within 90 days of the filing of this report) that Panamco's disclosure controls and procedures are effective to ensure that information required to be disclosed about Panamco in this report is accumulated and communicated to Panamco's management, including its principal executive officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers also have indicated that there were no significant changes in Panamco's internal controls or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no corrective actions with regard to significant deficiencies and material weaknesses.

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. With respect to the Alien Tort Claims Act litigation in Colombia, the pending ruling on our motion to dismiss is not expected until 2003. There has been no other 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

None.

ITEM 5. OTHER INFORMATION

Effective October 7, 2002, Annette Franqui was appointed Chief Financial Officer of the Company to succeed Mario Gonzalez Padilla who left Panamco to pursue other interests.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) List of Exhibits:

99.1 -- Certificate of the Chief Executive Officer and President of Panamerican Beverages, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 -- Certificate of the Chief Financial Officer of Panamerican Beverages, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Forms 8-K:

During the third quarter of 2002, the Company filed reports on Form 8-K dated August 14, 2002 with respect to "Item 9. Regulation FD Disclosure," and August 30, 2002 with respect to "Item 5. Other Events."

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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.

November 7, 2002

PANAMERICAN BEVERAGES, INC.
(REGISTRANT)

By: /s/ Annette Franqui

Annette Franqui
Vice President, Chief Financial
Officer and Treasurer
(On behalf of the Registrant
and as Chief Accounting Officer)

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CERTIFICATIONS

I, Craig Jung, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Panamerican Beverages, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ Craig Jung

Craig Jung
Chief Executive Officer

I, Annette Franqui, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Panamerican Beverages, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations

and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ Annette Franqui

Annette Franqui
Chief Financial Officer