

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand The Coca-Cola Company. MD&A is provided as a supplement to—and should be read in conjunction with—our financial statements and the accompanying notes ("Notes"). This overview provides our perspective on the individual sections of MD&A, as well as a few helpful hints for reading these pages. MD&A includes the following sections:

- *Our Business* — a general description of our business; the value drivers of our business; measurements; and opportunities, challenges and risks.
- *Financial Strategies and Risk Management* — information about debt financing, share repurchases, dividend policy and financial risk management.
- *Application of Critical Accounting Policies* — a discussion of accounting policies that require critical judgments and estimates.
- *Operations Review* — an analysis of our Company's consolidated results of operations for the three years presented in our financial statements. Our Company operates in one business – nonalcoholic beverages. Except to the extent that differences between our five geographic operating segments are material to an understanding of our business as a whole, we present the discussion in this MD&A on a consolidated basis.
- *Liquidity, Capital Resources and Financial Position* — an analysis of cash flows, sources and uses of cash, contractual obligations, and financial position.
- *Forward-Looking Statements* — cautionary information about forward-looking statements and a description of certain risks and uncertainties that could cause our actual results to differ materially from the Company's historical results or our current expectations or projections.

Our Business

General

We are the world's largest beverage company, with four of the world's top five soft-drink brands—Coca-Cola, Diet Coke, Fanta and Sprite. Because we believe in offering choices, we provide a wide variety of nonalcoholic beverages to meet consumers' desires and needs. Our Company owns or licenses nearly 400 trademarked brands—including carbonated soft drinks, juices and juice drinks, sports drinks, water products, teas, coffees and other beverages. Finished beverage products bearing our trademarks are sold in more than 200 countries.

Our Company generates revenues, income and cash flows by manufacturing and selling beverage concentrates and syrups as well as some finished beverages. We generally sell these products to bottling and canning operations, distributors, fountain wholesalers and some fountain retailers. We authorize our bottling partners to manufacture and package products made from our concentrates and syrups into branded finished products, that they then distribute and sell. Bottling partners, in which our Company has no ownership interest or a noncontrolling ownership interest, produced and distributed 82 percent of our 2003 worldwide unit case volume.

We make significant marketing expenditures in support of our brands, including advertising costs, sponsorship fees and special promotional events. Retailers and distributors receive rebates, promotions and point-of-sale displays. Our bottling partners receive advertising support and funds designated for cold-drink equipment. Consumers receive coupons, discounts and promotional incentives. These marketing expenditures

help to enhance awareness of and increase consumer preference for our brands. Greater awareness and preference promotes long-term growth in profitable volume, per capita consumption and our share of worldwide nonalcoholic beverage sales.

Our Company articulates its mission as a promise: *Our Company exists to benefit and refresh everyone it touches*. More specifically, through our actions we strive every day to provide quality in the marketplace, enrich the workplace, preserve the environment and strengthen our communities. Building upon the foundation of our promise, we focus on the six strategic priorities discussed in Item 1 of this report.

Value Drivers of Our Business

We believe that executing our six strategic priorities creates value. Consistent with a commitment to effective execution, our Company focuses on three key value drivers:

- profitable growth;
- cost management; and
- efficient capital structure.

Profitable Growth. We believe healthy brands—properly supported by marketing and innovation, leveraged across markets and targeted to a broad consumer base—drive profitable growth. Our Company continues to broaden our family of brands. In particular, we are expanding and growing our noncarbonated offerings to provide more alternatives to consumers. With this expansion and growth, our Company is focused on maintaining or increasing profit margins. We further intend to focus on improving margins in faster growing but lower-margin countries. To manage this expansion and growth, we are shifting from a volume focus to a “volume and value” focus. The added emphasis on value focuses on gross profit and profit before taxes. To support this shift, beginning in 2003 our compensation incentives emphasize gross profit, profit before income taxes and net income instead of unit case volume. We believe that tailored brand, package, price and channel strategies help achieve profitable growth. We are implementing these strategies and accelerating profitable growth through close alignment with our bottling partners.

Cost Management. A principal focus of cost management will continue to be on supply chain initiatives. Over the past year in North America, Japan and China, the Coca-Cola System established supply chain management companies to help increase procurement efficiencies and to centralize production and logistics operations. Lowering supply chain costs improves system economics. Alignment with all bottlers, including ways to achieve additional joint savings, represents a critical area of focus.

Cost reduction is another key initiative. One key area of focus, for example, is to decrease over time general and administrative costs as a percentage of net operating revenues. In 2003, we took steps to streamline and simplify our operations. Refer to Note 17. As a result of these streamlining initiatives, apart from the charge to 2003 earnings of \$561 million, we estimate that the Company’s financial results benefited by approximately \$50 million (pretax) in 2003 and will benefit by at least \$100 million (pretax) on an annualized basis beginning in 2004.

Efficient Capital Structure. Our capital structure is intended to optimize our cost of capital. We believe our strong capital position, our access to key financial markets, our ability to raise funds at a low effective cost and our overall low cost of borrowing provide a competitive advantage.

As our cash flows increase, we expect to increase our share repurchases. Furthermore, dividends increased for the 42nd straight year in 2004, and we believe that for the foreseeable future, our Board of Directors intends to increase our dividends. Refer to MD&A heading “Financial Strategies and Risk Management.”

Measurements

We believe these value drivers, when properly implemented, will result in: (1) maintaining or improving our gross profit margin; (2) providing additional leverage over time through reduced expenses as a percentage of net operating revenues; and (3) optimizing our cost of capital. The ultimate measure of our success will be reflected in the items below.

Results of Operations. Net operating revenues, gross profit, operating income, income before income taxes and net income per share represent key measurements of these value drivers. In 2003, net operating revenues totaled approximately \$21.0 billion, an 8 percent increase from 2002. Gross profit totaled \$13.3 billion in 2003, a 7 percent increase from 2002. Operating income was approximately \$5.2 billion, a 4 percent decrease from 2002. This amount included a charge of \$573 million primarily related to streamlining initiatives. Income before income taxes was approximately \$5.5 billion, virtually the same as 2002. Net income per share (basic and diluted) was \$1.77. These measurements will continue to be a key management focus in 2004 and beyond. Refer to MD&A heading “Operations Review.”

Liquidity and Capital Resources. In 2003, our net cash provided by operating activities was approximately \$5.5 billion, a 15 percent increase from 2002. For years 2004 through 2008, we expect our cumulative net cash provided by operating activities to be in excess of \$32 billion. We believe this demonstrates one of our Company’s strengths—the ability to generate significant cash flows to reinvest in our business. We utilize the cash in ways that management believes provides the greatest value. Principal uses of our cash flows are:

- *Share repurchases.* In 2003, share repurchases were approximately \$1.5 billion, and we expect 2004 share repurchases to be at least \$2 billion.
- *Dividends.* In 2003, dividends were approximately \$2.2 billion, and we increased dividends in 2004.
- *Capital expenditures.* These totaled \$812 million in 2003, and we expect 2004 capital expenditures to be less than \$1 billion.

Refer to MD&A heading “Liquidity, Capital Resources and Financial Condition.”

Opportunities, Challenges and Risks

Operating in more than 200 countries provides unique opportunities for our Company. Challenges and risks accompany these opportunities. Our Company’s promise, six strategic priorities and the value drivers of our business provide the foundation for our response to the opportunities, challenges and risks before us.

Looking forward, management has identified certain challenges and risks that demand the attention of the beverage industry and our Company. Of these, three key challenges and risks are discussed below.

Obesity and Inactive Lifestyles. Increasing consumer and regulatory awareness of the health problems arising from obesity and inactive lifestyles represents a serious risk. We recognize that obesity is a complex and serious public health problem. Our commitment to consumers begins with our broad product line, led by Coca-Cola and a wide selection of diet and light beverages, juices and juice drinks, sports drinks and waters. Our commitment also includes adhering to the right policies in schools and in the marketplace; supporting programs to encourage physical activity and to promote nutrition education; and continuously meeting changing consumer needs through beverage innovation, choice and variety. We are committed to playing an appropriate role in helping to address this issue in cooperation with governments, educators and consumers through science-based solutions and programs.

Water Quality and Quantity. Water represents another issue that will increasingly require our Company’s attention and collaboration with the beverage industry. Water is the main ingredient in every product our industry offers. It is also a limited resource facing unprecedented challenges from over-exploitation, increasing pollution and poor management.

Our Company and the beverage industry are in an excellent position to share the water expertise we have developed in the communities we serve—in resource management, wastewater treatment, rainwater harvesting and even desalination. As demand for water continues to increase around the world, we expect cooperation will be critical.

Free Trade. We believe the benefits of free trade—comparative advantage, price competition, labor mobility and ultimately prosperity and economic growth over the long term—are clear. However, the breakdown of trade talks, public pressure against trade organizations and the selective increase in tariffs around the world demonstrate the challenges related to free trade. It is important for our Company in particular and the beverage industry in general to show leadership in communicating the benefits of free trade.

All three of these challenges and risks—obesity, water and free trade—have the *potential* to adversely affect our industry. We expect to work at the industry level to address these matters, and we believe our Company is well positioned to have a positive impact related to these challenges and risks.

In addition to the three key challenges and risks impacting our industry as discussed above, we have identified other challenges and risks that could impact the Company's future financial results including the following:

- maintenance of brand image and product quality;
- profitable expansion and growth of our family of brands in the competitive marketplace. Refer to MD&A heading "Profitable Growth."
- restrictions on imports and exports and sources of supply; duties or tariffs; and changes in governmental regulations;
- the imposition of additional restrictions on currency conversion and remittances abroad; and
- policy concerns particular to the United States with respect to a country in which the Company has operations.

We believe many opportunities accompany these challenges and risks. Among these opportunities, we believe the following opportunities exist for our Company.

- growth potential for all nonalcoholic beverage categories—carbonated soft drinks, waters, juices and juice drinks, teas, coffees and sports drinks;
- new product introductions, intended to contribute to higher gross profits;
- premium packages, intended to generate strong revenue growth;
- significant package, pricing and channel opportunities to maximize profitable growth, especially in North America, Japan and other key markets; and
- proper positioning to capture industry growth—we believe more than 80 percent of worldwide incremental industry growth through 2007 will be from locations outside the United States.

Looking back at 2003, we identified several events noted below that negatively impacted our Company. These events impacted seven countries directly (and other countries indirectly) on five continents, highlighting the risks of operating globally. Despite these 2003 challenges and risks, our Company posted net operating revenues and net income growth. Processes that allow us to anticipate crises (where possible) and respond quickly to challenges and risks are critical to our success.

- production shutdown of the Company's products in Venezuela for approximately one-half of the first quarter of 2003 due to a national general strike and political turmoil;
- disruption caused by the implementation of a German deposit law on nonreturnable packages;

- the war in Iraq and continued overall political unrest in the Middle East;
- poor weather conditions in Japan and parts of North America;
- fewer consumers in North American restaurants, hotels and leisure channels;
- outbreak of Severe Acute Respiratory Syndrome (“SARS”);
- product recall in Japan surrounding two successful new products; and
- accusations, which we believe to be false, that our soft drinks in India contain high levels of pesticides.

Financial Strategies and Risk Management

The following strategies are intended to optimize our cost of capital. We consider these strategies to be of critical importance in pursuing our goal of maximizing share-owner value.

Debt Financing

Our Company maintains debt levels we consider prudent based on our cash flow, interest coverage and percentage of debt to capital. We use debt financing to lower our overall cost of capital, which increases our return on share-owners’ equity.

As of December 31, 2003, our long-term debt was rated “A+” by Standard & Poor’s and “Aa3” by Moody’s, and our commercial paper program was rated “A-1” and “P-1” by Standard & Poor’s and Moody’s, respectively. In assessing our credit strength, both Standard & Poor’s and Moody’s consider our capital structure and financial policies as well as aggregated balance sheet and other financial information for the Company and certain bottlers including Coca-Cola Enterprises Inc. (“CCE”) and Coca-Cola Hellenic Bottling Company S.A. (“CCHBC”). While the Company has no legal obligation for the debt of these bottlers, the rating agencies believe the strategic importance of the bottlers to the Company’s business model provides the Company with an incentive to keep these bottlers viable. If our credit ratings were reduced by the rating agencies, our interest expense could increase. Additionally, if certain bottlers’ credit ratings were to decline, the Company’s share of equity income could be reduced as a result of the potential increase in interest expense for these bottlers.

The rating agencies monitor our interest coverage ratio. Generally, this ratio is computed as income before taxes plus interest expense, divided by the sum of interest expense and capitalized interest. The interest coverage ratio was 32x, 28x and 20x, respectively, for the years ended December 31, 2003, 2002 and 2001. Rating agencies often exclude unusual items from the calculation; however, we calculated the ratios based on our reported results.

We monitor our interest coverage ratio and, as previously indicated, the rating agencies consider our ratio in assessing our credit ratings. However, as described above, the rating agencies aggregate financial data for certain bottlers with our Company when assessing our debt rating. As such, the key measure is the aggregate interest coverage ratio of the Company and certain bottlers. Both Standard & Poor’s and Moody’s employ different aggregation methodologies and have different thresholds for the aggregate interest coverage ratio. These thresholds are not necessarily permanent nor are they fully disclosed to our Company.

Our global presence and strong capital position give us access to key financial markets around the world, enabling us to raise funds with a low effective cost. This posture, coupled with active management of our mix of short-term and long-term debt, results in a lower overall cost of borrowing. Our debt management policies, in conjunction with our share repurchase programs and investment activity, can result in current liabilities exceeding current assets.

In managing our use of debt, we also monitor the following financial measures:

| December 31, | 2003 | 2002 | 2001 |
|------------------------------------|--------|--------|--------|
| Net debt (in billions) | \$ 1.9 | \$ 3.0 | \$ 3.2 |
| Net debt-to-net capital | 12% | 20% | 22% |
| Ratio of earnings to fixed charges | 24.6x | 23.2x | 18.1x |

Our Company monitors the financial measures discussed above in conjunction with our mix of fixed-rate and variable-rate debt and other business and financial risks. The above financial measures trended positively in 2003 and 2002, reflecting improved business results and effective capital management strategies.

Share Repurchases

In October 1996, our Board of Directors authorized a plan to repurchase up to 206 million shares of our Company's common stock through 2006. The table below presents shares repurchased and average price per share under the 1996 plan:

| Year Ended December 31, | 2003 | 2002 | 2001 |
|--|----------|----------|----------|
| Number of shares repurchased (in millions) | 33 | 14 | 5 |
| Average price per share | \$ 44.33 | \$ 48.42 | \$ 48.53 |

Since the inception of our initial share repurchase program in 1984 through our current program as of December 31, 2003, we have purchased more than 1 billion shares of our Company's common stock. This represents 33 percent of the shares outstanding as of January 1, 1984 at an average price per share of \$14.07.

We expect to repurchase at least \$2 billion of the Company's common shares in 2004. Because we expect our operating cash flows to increase in subsequent years, we also expect to increase repurchases of the Company's common shares in subsequent years.

Dividend Policy

At its February 2004 meeting, our Board of Directors again increased our quarterly dividend by approximately 14 percent, raising it to \$0.25 per share, equivalent to a full-year dividend of \$1.00 per share in 2004. This is our 42nd consecutive annual increase. Our annual common stock dividend was \$0.88 per share, \$0.80 per share and \$0.72 per share in 2003, 2002 and 2001, respectively. The 2003 dividend represents a 10 percent increase from 2002, and the 2002 dividend compared to 2001 represents an 11 percent increase.

Financial Risk Management

Our Company uses derivative financial instruments primarily to reduce our exposure to adverse fluctuations in interest rates and foreign exchange rates and, to a lesser extent, adverse fluctuations in commodity prices and other market risks. We do not enter into derivative financial instruments for trading purposes. As a matter of policy, all our derivative positions are used to reduce risk by hedging an underlying economic exposure. Because of the high correlation between the hedging instrument and the underlying exposure, fluctuations in the value of the instruments are generally offset by reciprocal changes in the value of the underlying exposure. Virtually all of our derivatives are straightforward, over-the-counter instruments with liquid markets.

Foreign Currency. We manage most of our foreign currency exposures on a consolidated basis, which allows us to net certain exposures and take advantage of any natural offsets. Our five geographic operating segments generated approximately 81 percent of 2003 operating income outside the United States; therefore, weakness in one particular currency is often offset by strengths in others over time. We use derivative financial instruments to further reduce our net exposure to currency fluctuations.

Our Company enters into forward exchange contracts and purchases currency options (principally euro and Japanese yen) and collars to hedge certain portions of forecasted cash flows denominated in foreign currencies. Additionally, we enter into forward exchange contracts to offset the earnings impact relating to exchange rate fluctuations on certain monetary assets and liabilities. We also enter into forward exchange contracts as hedges of net investments in international operations.

Interest Rates. We monitor our mix of fixed-rate and variable-rate debt, as well as our mix of term debt versus nonterm debt. This monitoring includes a review of business and other financial risks as noted above. We also enter into interest rate swap agreements to manage these risks.

Value at Risk. We monitor our exposure to financial market risks using several objective measurement systems, including value-at-risk models. Our value-at-risk calculations use a historical simulation model to estimate potential future losses in the fair value of our derivatives and other financial instruments that could occur as a result of adverse movements in foreign currency and interest rates. We have not considered the potential impact of favorable movements in foreign currency and interest rates on our calculations. We examined historical weekly returns over the previous 10 years to calculate our value at risk. The average value at risk represents the simple average of quarterly amounts over the past year. As a result of our foreign currency value-at-risk calculations, we estimate with 95 percent confidence that the fair values of our foreign currency derivatives and other financial instruments, over a one-week period, would decline by less than \$26 million, \$34 million and \$43 million, respectively, using 2003, 2002 or 2001 average fair values and by less than \$28 million and \$31 million, respectively, using December 31, 2003 and 2002 fair values. According to our interest rate value-at-risk calculations, we estimate with 95 percent confidence that any increase in our net interest expense due to an adverse move in our 2003 average or in our December 31, 2003 interest rates over a one-week period would not have a material impact on our financial statements. Our December 31, 2002 and 2001 estimates also were not material to our financial statements.

Application of Critical Accounting Policies

Management discussed with our Audit Committee the development, selection and disclosure of our critical accounting policies and estimates and the application of these policies and estimates.

Basis of Presentation and Consolidation

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Our Company consolidates all entities that we control by ownership of a majority voting interest. Refer to Note 1 for a discussion of variable interest entities.

We use the equity method to account for our investments for which we have the ability to exercise significant influence over operating and financial policies. Our consolidated net income includes our Company's share of the net earnings of these companies. The difference between consolidation and the equity method impacts certain financial ratios because of the presentation of the detailed line items reported in the financial statements. However, our consolidated net income for the period and our share-owners' equity at the end of the period are the same whether the investment in the company is accounted for under the equity method or the company is consolidated. Our judgments regarding the level of influence of each equity method investment include considering key factors such as our ownership interest, representation on the board of directors, participation in policy-making decisions and material intercompany transactions.

We use the cost method to account for our investments in companies that we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. In accordance with the cost method, these investments are recorded at cost or fair value, as appropriate. We record dividend income when applicable dividends are declared.

Our Company eliminates from our financial results all significant intercompany transactions, including the intercompany portion of transactions with equity method investees.

Effective February 2002, our Company acquired control of Coca-Cola Erfrischungsgetraenke AG (“CCEAG”), the largest bottler of the Company’s beverage products in Germany. Under our policy, we concluded that CCEAG should be consolidated in our financial statements based on the following.

Prior to February 2002, our Company accounted for CCEAG under the equity method of accounting. Our Company had an approximate 41 percent ownership interest in the outstanding shares of CCEAG. In February 2002, in accordance with the terms of the Control and Profit and Loss Transfer Agreement (“CPL”), our Company obtained control of CCEAG for a period of up to five years. Furthermore, we also entered into a Pooling Agreement with certain share owners of CCEAG that provided our Company with voting control of CCEAG. In return for control of CCEAG, the Company guaranteed annual payments, in lieu of dividends by CCEAG, to all other CCEAG share owners. Additionally, all other CCEAG share owners entered into either a put or a put/call option agreement with the Company, exercisable at any time up to the December 31, 2006 expiration date. Our Company entered into either put or put/call agreements for shares representing an approximate 59 percent interest in CCEAG. The spread in the strike prices of the put and call options is only approximately 3 percent.

Because the terms of the CPL transferred control and all the economic risks and rewards of CCEAG to the Company immediately, we determined consolidation was appropriate. Refer to Note 18.

In December 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46 (revised December 2003) (“Interpretation 46”), “Consolidation of Variable Interest Entities.” We do not anticipate that Interpretation 46 will have a material impact on our basis of presentation and consolidation. Refer to Note 1.

Recoverability of Noncurrent Assets

Management’s assessment of the recoverability of noncurrent assets involves critical accounting estimates. The assessments reflect management’s best assumptions and estimates. Factors that management must estimate when performing impairment tests include, among other items, sales volume, prices, inflation, discount rates, marketing spending, exchange rates, tax rates and capital spending. These factors are interdependent and therefore do not change in isolation. Significant management judgment is involved in estimating these factors, and they include inherent uncertainties; however, the assumptions we use are consistent with our internal planning. Management periodically evaluates and updates the estimates based on the conditions that influence these factors. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus our accounting estimates may change from period to period. If other assumptions and estimates had been used in the current period, the balances for noncurrent assets could have been materially impacted. Furthermore, if management uses different assumptions or if different conditions occur in future periods, future operating results could be materially impacted.

Operating in more than 200 countries subjects our Company to many uncertainties and risks related to various economic, political and regulatory environments. Refer to MD&A heading “Our Business—Opportunities, Challenges and Risks.” As a result, many assumptions must be made by management when determining the recoverability of noncurrent assets. An example of one uncertainty relates to the deposit law on certain nonreturnable beverage packages enacted by the German government in the first quarter of 2003. The change in law on January 1, 2003 and subsequent developments resulted in most retailers delisting nonreturnable packages. After an initial decrease in volume growth, our management acted quickly to address this matter and, as a result, our business posted sequential quarterly improvements. The new deposit law has created a difficult environment for the industry, but we believe our management successfully positioned our Company to respond to German consumers’ increasing preference for returnable packaging. However, if other unexpected political matters or abrupt market shifts occur that impact our industry or our Company, certain

assets in Germany may be at risk for impairment. We proactively managed and will continue to manage our investments in new returnable lines and related bottling infrastructure to minimize our exposure as the ongoing regulatory changes develop. We will continue to monitor this situation.

For the following noncurrent assets, we perform tests of impairment, as appropriate. For the applicable assets, we perform tests when certain conditions exist that may indicate the carrying value may not be recoverable. For other applicable assets, we perform tests at least annually or more frequently if events or circumstances indicate that an asset may be impaired:

| December 31, 2003 | Carrying Value | Percentage of Total Assets |
|--|----------------|----------------------------|
| (In millions except percentages) | | |
| Tested for impairment when conditions exist that indicate carrying value may not be recoverable: | | |
| Equity method investments | \$ 5,224 | 19 |
| Cost method investments, principally bottling companies | 314 | 1 |
| Other assets | 3,322 | 12 |
| Property, plant and equipment, net | 6,097 | 22 |
| Amortized intangible assets, net (various, principally trademarks) | 165 | 1 |
| Tested for impairment at least annually or when events indicate that an asset may be impaired: | | |
| Trademarks with indefinite lives | \$ 1,979 | 7 |
| Goodwill | 1,029 | 4 |
| Bottlers' franchise rights | 658 | 2 |
| Other intangible assets not subject to amortization | 158 | 1 |

Many of the noncurrent assets listed above are located in markets that we consider to be developing or to have changing political environments. These markets include Germany, where the future of the nonreturnable deposit law creates uncertainty; the Middle East, where political and civil unrest continues; and certain markets in Latin America, Asia and Africa where local economic and political conditions are unstable. In many of these markets, the Company has bottling assets and investments. The list below reflects the Company's carrying value of noncurrent assets in these markets. By nature, these assets involve inherent risks not relevant to assets located in developed or stable markets.

| December 31, 2003 | Carrying Value | Percentage of Applicable Line Item Above |
|--|----------------|--|
| (In millions except percentages) | | |
| Tested for impairment when conditions exist that indicate carrying value may not be recoverable: | | |
| Equity method investments | \$ 552 | 11 |
| Cost method investments, principally bottling companies | 108 | 34 |
| Other assets | 245 | 7 |
| Property, plant and equipment, net | 1,813 | 30 |
| Amortized intangible assets, net (various, principally trademarks) | 56 | 34 |
| Tested for impairment at least annually or when events indicate that an asset may be impaired: | | |
| Trademarks with indefinite lives | \$ 204 | 10 |
| Goodwill | 853 | 83 |
| Bottlers' franchise rights | 436 | 66 |
| Other intangible assets not subject to amortization | 26 | 16 |

Equity Method and Cost Method Investments. For most publicly traded investments, the fair value of our Company's investment is often readily available based on quoted market prices. For non-publicly traded investments, management's assessment of fair value is based on valuation methodologies including discounted cash flows, estimates of sales proceeds and external appraisals, as appropriate. The ability to accurately predict future cash flows, especially in developing and unstable markets, may impact the determination of fair value.

In the event a decline in fair value of an investment occurs, management may be required to determine if the decline in market value is other than temporary. Management's assessments as to the nature of a decline in fair value are based on the valuation methodologies discussed above and our ability and intent to hold the investment. We consider our equity method investees to be strategic long-term investments; therefore, we generally complete our assessments with a long-term viewpoint. If the fair value is less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded. Management's assessments of fair value in accordance with these valuation methodologies represent our best estimates as of the time of the impairment review and are consistent with our internal planning. If different fair values were estimated, this could have a material impact on the financial statements.

The following table presents the difference between calculated fair values, based on quoted closing prices of publicly traded shares, and our Company's carrying values for significant publicly traded bottlers accounted for as equity method investees (in millions):

| December 31, 2003 | Fair Value | Carrying Value | Difference ¹ |
|--|-----------------|-------------------|-------------------------|
| Coca-Cola Enterprises Inc. | \$ 3,695 | \$ 1,260 | \$ 2,435 |
| Coca-Cola FEMSA, S.A. de C.V. | 1,568 | 674 | 894 |
| Coca-Cola Hellenic Bottling Company S.A. | 1,109 | 941 | 168 |
| Coca-Cola Amatil Limited | 1,083 | 652 | 431 |
| Grupo Continental, S.A. | 266 | 169 | 97 |
| Coca-Cola Bottling Company Consolidated | 131 | 61 | 70 |
| Coca-Cola Embonor S.A. | 126 | 135 | (9) |
| Coca-Cola West Japan Company Ltd. | 78 | 123 | (45) |
| Embotelladoras Polar S.A. | 38 | 41 | (3) |
| | \$ 8,094 | \$ 4,056 | \$ 4,038 |

¹ In instances where carrying value exceeds fair value, the current decline in value is considered to be temporary.

Other Assets. Our Company invests in infrastructure programs with our bottlers that are directed at strengthening our bottling system and increasing unit case volume. Additionally, our Company advances payments to certain customers to fund future marketing activities intended to generate profitable volume and expenses such payments over the applicable period. Advance payments are also made to certain customers for distribution rights. Payments under these programs are generally capitalized as other assets in our balance sheets. Management periodically evaluates the recoverability of these assets by preparing estimates of sales volume, the resulting gross profit, cash flows and other factors. If the assets are assessed to be recoverable, they are amortized over the periods benefited. If the carrying value of these assets is considered to be not recoverable, such assets are written down as appropriate.

Property, Plant and Equipment. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of property, plant and equipment should be assessed. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, or a current-period operating or cash flow loss combined with historical losses or projected future losses. If an event occurs or changes in circumstances are present, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash

flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value.

Goodwill, Trademarks and Other Intangible Assets. Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets,” classifies intangible assets into three categories: (1) intangible assets with definite lives subject to amortization; (2) intangible assets with indefinite lives not subject to amortization; and (3) goodwill. For intangible assets with definite lives, tests for impairment must be performed if conditions exist that indicate the carrying value may not be recoverable. For intangible assets with indefinite lives and goodwill, tests for impairment must be performed at least annually. Such tests for impairment are also required for intangible assets recorded by our equity method investees.

Our trademarks and other intangible assets determined to have definite lives are amortized over their useful lives. In accordance with SFAS No. 142, if conditions exist that indicate the carrying value may not be recoverable, we review such trademarks and other intangible assets with definite lives for impairment to ensure they are appropriately valued. Such conditions may include an economic downturn in a market or a change in the assessment of future operations. Trademarks and other intangible assets determined to have an indefinite useful life are not amortized. We test such trademarks and other intangible assets with indefinite useful lives for impairment annually or more frequently if events or circumstances indicate that assets might be impaired. Goodwill is not amortized. We perform tests for impairment of goodwill annually or more frequently if events or circumstances indicate it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying value, including goodwill. We use a variety of methodologies in conducting these impairment assessments, including cash flow analysis, estimates of sales proceeds and independent appraisals. Where applicable, we use an appropriate discount rate, based on the Company’s cost of capital rate or location-specific economic factors.

Income Taxes

Our income tax expense and related balance sheet amounts involve significant management estimates and judgments. Judgments regarding realization of deferred tax assets and the ultimate outcome of tax-related contingencies represent key items involved in the determination of income tax expense and related balance sheet accounts.

Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns for which we have already properly recorded the tax benefit in our income statement. Realization of our deferred tax assets reflects our tax planning strategies. We establish valuation allowances for deferred tax assets that we do not believe will be realized.

Tax assessments may arise several years after tax returns have been filed. Predicting the outcome of such tax assessments involves uncertainty; however, we believe that recorded tax liabilities adequately account for our analysis of probable outcomes.

Refer to Note 15.

Contingencies

Our Company is subject to various claims and contingencies related to legal proceedings. Refer to Note 11. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate. Management believes that any liability to the Company that may arise as a result of currently pending legal proceedings will not have a material adverse effect on the financial condition of the Company taken as a whole.

Operations Review

Analysis of Consolidated Statements of Income

| Year Ended December 31, (In millions except per share data and percentages) | 2003 | 2002 | 2001 | Percent Change | |
|--|------------------|------------------|------------------|----------------|-----------|
| | | | | 03 vs. 02 | 02 vs. 01 |
| NET OPERATING REVENUES | \$ 21,044 | \$ 19,564 | \$ 17,545 | 8 | 12 |
| Cost of goods sold | 7,762 | 7,105 | 6,044 | 9 | 18 |
| GROSS PROFIT | 13,282 | 12,459 | 11,501 | 7 | 8 |
| GROSS PROFIT MARGIN | 63.1% | 63.7% | 65.6% | | |
| Selling, general and administrative expenses | 7,488 | 7,001 | 6,149 | 7 | 14 |
| Other operating charges | 573 | — | — | * | * |
| OPERATING INCOME | 5,221 | 5,458 | 5,352 | (4) | 2 |
| OPERATING MARGIN | 24.8% | 27.9% | 30.5% | | |
| Interest income | 176 | 209 | 325 | (16) | (36) |
| Interest expense | 178 | 199 | 289 | (11) | (31) |
| Equity income—net | 406 | 384 | 152 | 6 | 153 |
| Other income (loss)—net | (138) | (353) | 39 | * | * |
| Gains on issuances of stock by equity investees | 8 | — | 91 | * | * |
| INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 5,495 | 5,499 | 5,670 | — | (3) |
| Income taxes | 1,148 | 1,523 | 1,691 | (25) | (10) |
| Effective tax rate | 20.9% | 27.7% | 29.8% | | |
| NET INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE | 4,347 | 3,976 | 3,979 | 9 | — |
| Cumulative effect of accounting change for SFAS No. 142, net of income taxes: | | | | | |
| Company operations | — | (367) | — | * | * |
| Equity investees | — | (559) | — | * | * |
| Cumulative effect of accounting change for SFAS No. 133, net of income taxes | — | — | (10) | * | * |
| NET INCOME | \$ 4,347 | \$ 3,050 | \$ 3,969 | 43 | (23) |
| PERCENTAGE OF NET OPERATING REVENUES | 20.7% | 15.6% | 22.6% | | |
| NET INCOME PER SHARE: | | | | | |
| Basic | \$ 1.77 | \$ 1.23 | \$ 1.60 | 44 | (23) |
| Diluted | \$ 1.77 | \$ 1.23 | \$ 1.60 | 44 | (23) |

* Calculation is not meaningful.

Refer to the above Analysis of Consolidated Statements of Income in condensed form while reading the operations review below.

Net Operating Revenues

Net operating revenues increased by \$1,480 million in 2003 versus 2002. Net operating revenues increased by \$2,019 million in 2002 versus 2001.

The following table indicates, on a percentage basis, the estimated impact of key factors resulting in significant increases (decreases) in net operating revenues:

| Year Ended December 31, | 2003 vs. 2002 | 2002 vs. 2001 |
|--|---------------|---------------|
| Increase in gallon sales, including acquisitions | 3% | 5% |
| Structural changes | (1) | 6 |
| Price and product/geographic mix | 1 | 3 |
| Impact of currency fluctuations versus the U.S. dollar | 5 | (2) |
| Total percentage increase | 8% | 12% |

The increase in gallon sales in 2003 included the favorable impact of the consolidation of full year results in 2003 for 2002 acquisitions. In the second quarter of 2002, our Company entered into a long-term license agreement involving Seagram's mixers, a carbonated line of drinks. In the third quarter of 2002, our Company and Danone Waters of North America ("DWNA") formed a new joint venture company, CCDA Waters, L.L.C. ("CCDA") for the production, marketing and distribution of DWNA's bottled spring and source water business in the United States. We own a controlling 51 percent interest in the joint venture company, with a license for the use of the Dannon and Sparkletts brands, as well as ownership of several value brands. Also in the third quarter of 2002, we entered into a master distribution agreement for the Evian water brand in the United States and Canada. Gallons shipped in 2003 increased when compared to 2002 as a result of owning and operating these businesses throughout 2003 compared to only owning and operating them for a portion of 2002.

"Structural changes" refer to acquisitions or dispositions of bottling or canning operations. Structural changes had a negative impact in 2003 due partially to the deconsolidation of Cosmos Bottling Corporation ("CBC") during the second quarter of 2003. This negative impact was partially offset by the inclusion of one additional month of revenue from CCEAG. CCEAG was consolidated in February 2002; therefore, the 2002 period contained only 11 months of CCEAG revenues versus the full year in 2003.

Effective October 1, 2003, the Company and all our bottling partners in Japan completed a structural change that created a nationally integrated supply chain management company to centralize procurement, production and logistics operations for the entire Coca-Cola system in Japan. As a result of the creation of this supply chain management company in Japan, a portion of our Company's business has essentially been converted from a finished product business model to a concentrate business model. This shift of certain products to a concentrate business model resulted in a reduction of revenues and cost of goods sold, each in the same amount (\$282 million), thus having no impact on our Company's gross profit or operating income. The formation of this entity included the sale of Company inventory and the leasing of certain Company assets to this new entity on October 1, 2003, as well as our recording of a liability for certain contractual obligations to Japanese bottlers. Such amounts were not material to the Company's results of operations. We expect that both net operating revenues and cost of goods sold will be reduced by approximately \$750 million for the nine months ending September 30, 2004 compared to the same period of 2003.

The timing of acquisitions and structural changes does not occur consistently from period to period. As a result, anticipating the impact of such transactions on future increases or decreases in net operating revenues (and other financial statement line items) usually is not possible. However, we expect to continue to sell bottling interests and buy bottling interests in limited circumstances, and as a result, we will continue to have structural impacts to our financial statements in future periods.

The impact of the weaker U.S. dollar in 2003 was driven primarily by the stronger euro that favorably impacted the Europe, Eurasia and Middle East operating segment and the stronger yen that favorably impacted

the Asia operating segment. This impact was partially offset by generally weaker currencies negatively impacting our Latin America operating segment.

The acquisitions of our interests in Odwalla, Inc. (“Odwalla”), the CCDA water brands and CBC (structural change) contributed significantly to the increased 2002 net operating revenues.

The most significant structural change in 2002 was the consolidation of CCEAG. This consolidation was partially offset by the sale and resulting deconsolidation of our Russian and Baltics bottling operations.

The combined 2002 net operating revenues resulting from the structural change of CCEAG and the acquisitions of our interests in Odwalla, CCDA and CBC were approximately \$1.5 billion. The Russian and Baltics bottling operations accounted for approximately \$150 million of 2001 net operating revenues.

Price increases and product/geographic mix in selected countries positively impacted our 2002 net operating revenues. The improvements in these core business factors reflected a positive trend in 2002.

The strength of the U.S. dollar in 2002 relative to most major currencies had a negative impact on net operating revenues. The stronger U.S. dollar compared to the Japanese yen, the Argentine peso, the Mexican peso, the Brazilian real, the Venezuelan bolivar and the South African rand was partially offset by strength in the euro. Refer to MD&A heading “Exchange.”

Information about our net operating revenues by operating segment on a percentage basis is as follows:

| Year Ended December 31, | 2003 | 2002 | 2001 |
|-------------------------------|---------------|--------|--------|
| North America | 30.1% | 32.0% | 32.7% |
| Africa | 3.9 | 3.5 | 3.6 |
| Asia | 24.0 | 25.8 | 27.7 |
| Europe, Eurasia & Middle East | 31.2 | 26.9 | 22.6 |
| Latin America | 9.7 | 10.7 | 12.4 |
| Corporate | 1.1 | 1.1 | 1.0 |
| Net operating revenues | 100.0% | 100.0% | 100.0% |

The net operating revenues for Europe, Eurasia and Middle East significantly increased in 2003 due to sound business fundamentals, innovation, strong marketing strategies, rigorous cost management, positive currency trends and favorable weather during the summer months. The 2002 net operating revenues for Europe, Eurasia and Middle East increased primarily due to the consolidation of CCEAG. Net operating revenues in 2002 for Latin America were negatively impacted by exchange fluctuations and challenging economic conditions, primarily in Argentina, Venezuela and Brazil.

Gross Profit

The decrease in 2003 gross profit margin versus 2002 was primarily the result of the inclusion of higher-revenue, lower-margin CCEAG, CCDA and Evian results for the full year of 2003. These results were partially offset by the creation of the nationally integrated supply chain company in Japan (previously discussed under MD&A heading “Net Operating Revenues”), the deconsolidation of CBC during the second quarter of 2003 and the receipt during the first quarter of 2003 of a settlement of approximately \$52 million from certain defendants in a vitamin antitrust litigation. Refer to Note 16.

We currently estimate that the creation of the nationally integrated supply chain company in Japan, partially offset by other structural changes such as consolidation of entities in accordance with Interpretation 46, will improve the gross profit margin in 2004 compared to 2003. Refer to Note 1 for a discussion of Interpretation 46.

Our cost of goods sold increased in 2002 compared to 2001 primarily as a result of the acquisitions of our interests in Odwalla, the CCDA water brands and CBC and the structural change of CCEAG. Total combined 2002 cost of goods sold for these entities was \$844 million.

Our decrease in 2002 gross profit margin was due primarily to the consolidation of lower-margin operations, primarily the CCEAG structural change and the acquisitions of our interests in Odwalla, the CCDA water brands and CBC. These decreases were partially offset by the sale and resulting deconsolidation of our Russian and Baltics bottling operations. Generally, bottling, canning and vending operations produce higher net revenues but lower gross profit margins compared to concentrate and syrup operations.

Selling, General and Administrative Expenses

The following table includes the significant components of selling, general and administrative expenses (in millions):

| Year Ended December 31, | 2003 | 2002 | 2001 |
|--|----------|----------|----------|
| Selling expenses | \$ 3,074 | \$ 2,915 | \$ 2,395 |
| Advertising expenses | 1,905 | 1,775 | 1,970 |
| General and administrative expenses | 2,102 | 1,946 | 1,743 |
| Stock-based compensation expense | 407 | 365 | 41 |
| Selling, general and administrative expenses | \$ 7,488 | \$ 7,001 | \$ 6,149 |

Selling, general and administrative expenses were approximately 7 percent higher in 2003 versus 2002. Approximately 4 percentage points of this increase were due to an overall weaker U.S. dollar (primarily compared to the euro). These expenses also increased by \$75 million as a result of increases for benefit plans, including defined benefit pension plans, defined contribution pension plans, and postretirement health care and life insurance benefits plans. Selling expenses increased by approximately \$32 million due to the inclusion of one additional month of operations for CCEAG in 2003 compared to 2002. The Seagram's mixers, the CCDA water brands and Evian transactions during 2002 resulted in an increase of approximately \$43 million in selling, general and administrative expenses as a result of including full-year expenses in 2003 compared to only a portion of 2002. These increases were partially offset by effective management of operating expenses.

Acquisitions of our interests in Odwalla, CCDA and CBC and the structural change of CCEAG increased selling expenses by \$430 million and general and administrative expenses by \$136 million in 2002. These increases were partially offset by the sale and resulting deconsolidation of our Russian and Baltics bottling operations.

The adoption of SFAS No. 142 and its related impact is discussed in Notes 1 and 4. Upon adoption of SFAS No. 142, intangible assets that have indefinite lives and goodwill previously amortized are no longer amortized. Due to the adoption of SFAS No. 142, amortization expense for 2002 was reduced by approximately \$60 million. Substantially all such amortization expense was included in the general and administrative expenses line item.

As discussed in Notes 1 and 13, effective January 1, 2002, our Company adopted the preferable fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and selected the modified prospective transition method under the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." Prior to 2002, our Company accounted for stock-based compensation under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations. For stock options, no stock-based employee compensation expense was reflected in net income for the year ended December 31, 2001. In 2001, the Company recorded \$41 million in stock-based compensation expense for its restricted stock plans. In 2003 and 2002, stock-based compensation expense was recognized as if the fair value method of SFAS No. 123 had been

applied from its original effective date. Of the \$422 million recorded in 2003, \$407 million was recorded in selling, general and administrative expenses and \$15 million was recorded in other operating charges.

A stronger U.S. dollar relative to most major currencies partially offset the increases in selling, general and administrative expenses in 2002 compared to 2001.

Pension Benefits. Net periodic cost for our defined benefit pension plans was \$120 million, \$72 million and \$62 million, respectively, for the years ended December 31, 2003, 2002 and 2001. These expenses are included in general and administrative expenses.

The decrease in our expected weighted-average, long-term rate of return assumption, the decrease in our discount rate assumption and increased amortization of actuarial losses increased our net periodic pension cost by \$48 million in 2003 compared to 2002. Net periodic pension cost in 2004 is expected to be in the range of \$20 million to \$25 million higher than 2003 due to a decrease in our discount rate assumptions and increased amortization of actuarial losses.

Refer to Note 14.

Other Operating Charges

Operating income in 2003 reflected the impact of \$561 million of expenses related to the 2003 streamlining initiatives. A majority of the charges related to initiatives in North America and Germany. In North America, the Company integrated the operations of three separate North American business units—Coca-Cola North America, Minute Maid and Fountain. In Germany, CCEAG took steps to improve its efficiency in sales, distribution and manufacturing, and our German Division office also implemented streamlining initiatives. Selected other operations also took steps to streamline their operations to improve overall efficiency and effectiveness.

The total streamlining initiative costs incurred for the year ended December 31, 2003 by operating segment were as follows (in millions):

| | |
|-------------------------------|---------------|
| North America | \$ 273 |
| Africa | 12 |
| Asia | 18 |
| Europe, Eurasia & Middle East | 183 |
| Latin America | 8 |
| Corporate | 67 |
| Total | \$ 561 |

These initiatives resulted in the separation of a total of approximately 3,700 associates in 2003, primarily in North America, Germany and Asia. As a result of these streamlining initiatives, apart from the charge to 2003 earnings of \$561 million, we estimate that the Company's financial results benefited by approximately \$50 million (pretax) in 2003 and will benefit by at least \$100 million (pretax) on an annualized basis beginning in 2004.

Refer to Note 17.

Operating Income and Operating Margin

Information about our operating income by operating segment on a percentage basis is as follows:

| Year Ended December 31, | 2003 | 2002 | 2001 |
|-------------------------------|----------------|---------|---------|
| North America | 23.0 % | 27.4 % | 27.7 % |
| Africa | 4.8 | 4.1 | 5.2 |
| Asia | 32.3 | 33.3 | 32.9 |
| Europe, Eurasia & Middle East | 36.5 | 29.5 | 27.3 |
| Latin America | 18.6 | 19.0 | 20.4 |
| Corporate | (15.2) | (13.3) | (13.5) |
| Operating income | 100.0 % | 100.0 % | 100.0 % |

As demonstrated by the table above, the percentage contribution to operating income by each operating segment fluctuated from year to year. Operating income was influenced by a variety of factors and events, primarily the following items:

- As a result of streamlining charges, 2003 operating income was reduced by \$561 million as previously discussed. Refer to Note 17.
- In 2003, as a result of the impact of adopting the fair value method of accounting for stock-based compensation under SFAS No. 123, operating income was reduced by \$127 million for North America, \$26 million for Africa, \$55 million for Asia, \$54 million for Europe, Eurasia and Middle East, \$24 million for Latin America and \$113 million for Corporate. In 2002, as a result of the impact of adopting the fair value method of accounting for stock-based compensation under SFAS No. 123, operating income was reduced by \$119 million for North America, \$24 million for Africa, \$51 million for Asia, \$51 million for Europe, Eurasia and Middle East, \$22 million for Latin America and \$106 million for Corporate. Refer to Notes 13 and 19.
- In 2003, Europe, Eurasia and Middle East operating income significantly increased due to sound business fundamentals, innovation, strong marketing strategies, rigorous cost management, positive currency trends and favorable weather during the summer months.
- In 2002, Latin America was negatively impacted by exchange fluctuations and challenging economic conditions, primarily in Argentina, Venezuela and Brazil.
- As a result of the Company's receipt of a settlement related to a vitamin antitrust litigation matter, operating income in 2003 increased by \$52 million for Corporate. Refer to Note 16.

Interest Income and Interest Expense

In 2003, interest income decreased by \$33 million compared to 2002 primarily due to lower interest rates earned on short-term investments. Nevertheless, the Company continues to benefit from cash invested in locations outside the United States earning higher interest rates than could be obtained within the United States. Conversely, a majority of our interest expense is incurred on borrowings in the United States. Interest expense in 2003 decreased by \$21 million mainly as a result of both a decrease in average commercial paper debt balances and lower interest rates for commercial paper borrowings.

A majority of the 2002 decrease of \$116 million in interest income compared to 2001 was due to lower interest rates earned on short-term investments during 2002. The 2002 decrease in interest expense of \$90 million versus 2001 was due to both a decrease in average commercial paper borrowings and lower interest rates for commercial paper borrowings. The decrease in interest expense for commercial paper borrowings was partially offset by increased interest expense on long-term debt related to the consolidation of CCEAG (refer to Note 18) and the issuance during 2002 of \$750 million of notes due June 1, 2005. The proceeds from this \$750 million long-term debt issuance were used to reduce current debt (refer to Note 7).

Equity Income—Net

Equity income for the majority of our investees increased during 2003 due to the overall improving health of the Coca-Cola bottling system around the world. Our equity income for 2003 was negatively impacted by a \$102 million charge primarily related to a Latin American equity investee, as described below.

Effective May 6, 2003, one of our Company's Latin American equity method investees, Coca-Cola FEMSA, S.A. de C.V. ("Coca-Cola FEMSA"), consummated a merger with another of the Company's Latin American equity method investees, Panamerican Beverages, Inc. ("Panamco"). Our Company received new Coca-Cola FEMSA shares in exchange for all the Panamco shares previously held by the Company. Our Company's ownership interest in Coca-Cola FEMSA increased from 30 percent to approximately 40 percent as a result of this merger. This exchange of shares was treated as a nonmonetary exchange of similar productive assets, and no gain was recorded by our Company as a result of this merger.

In connection with the merger, Coca-Cola FEMSA management initiated steps to streamline and integrate the operations. This process included the closing of various distribution centers and manufacturing plants. Furthermore, due to the challenging economic conditions and an uncertain political situation in Venezuela, certain intangible assets were determined to be impaired and written down to their fair market value. During 2003, our Company recorded a noncash charge of \$102 million primarily related to these matters. This charge is included in the line item equity income—net.

The \$232 million increase in 2002 equity income—net, as compared to 2001, was due to the overall improving health of the Coca-Cola bottling system around the world and the favorable impact of reduced amortization resulting from the adoption of SFAS No. 142. Specific items with a positive impact to equity income—net were the increase in equity income for CCE of approximately \$209 million due to improving trends in operating and financial performance (which included a \$90 million favorable impact resulting from the adoption of SFAS No. 142) and the reduction in amortization expenses of approximately \$60 million for investments other than CCE resulting from the implementation of SFAS No. 142. Due to the adoption of SFAS No. 142, equity income—net for 2002 increased by approximately \$150 million. These increases were offset by selected equity method investments in Latin America that had been adversely impacted by economic difficulties, as well as our Company's share of impairment and restructuring charges taken by certain equity method investees in Latin America during the third quarter of 2002. The Company's share of these charges was approximately \$33 million.

For 2002, our Company's share of income from equity method investees was also favorably impacted by a benefit related to our share of the gain on the sale by Cervejarias Kaiser S.A. ("Kaiser S.A.") of its interests in Cervejarias Kaiser Brazil, Ltda to Molson Inc. (refer to Note 16). Approximately \$21 million of our share of the pretax gain from the sale by Kaiser S.A. was recorded in the line item equity income—net with the remaining portion, \$22 million, recorded in the line item other income (loss)—net.

Other Income (Loss)—Net

Other income (loss)—net was a net loss of \$138 million for 2003 compared to a net loss of \$353 million for 2002, a difference of \$215 million. The significant portion of this difference related to a \$157 million charge (discussed below) in 2002, and no such charge applied to 2003. This line item in 2003 primarily consisted of foreign exchange losses of \$76 million and accretion of \$51 million for the discounted value of the CCEAG liability.

Other income (loss)—net in 2002 was principally composed of foreign currency exchange losses of approximately \$118 million, the accretion of the discounted value of the CCEAG liability of approximately \$38 million (refer to Note 18), the items discussed in this section below and minority interest accruals. The losses on currency exchange primarily occurred in Latin America and Africa, which experienced significant devaluation of currencies. The increase in the minority interest accruals primarily related to the acquisitions of our interests in CBC and CCDA. Refer to Note 18.

In the first quarter of 2002, our Company recorded a noncash pretax charge of approximately \$157 million, primarily related to the write-down of certain investments in Latin America. This write-down reduced the carrying value of the investments to fair value. The charge was primarily the result of economic developments in Argentina during the first quarter of 2002, including devaluation of the Argentine peso and the severity of the unfavorable economic conditions. The Company expects to realize a minimal tax benefit from this write-down. The impact on 2002 diluted earnings per share was an after-tax reduction of approximately \$0.06 per share. As previously noted, \$22 million of our share of the pretax gain from the sale by Kaiser S.A. was recorded in the line item other income (loss)—net in 2002.

Gains on Issuances of Stock by Equity Investees

If and when an equity investee issues its stock to third parties at a price in excess of our book value, our Company's equity in the underlying net assets of that investee increases. We generally record an increase to our investment account and a corresponding gain for these transactions.

In 2003, our Company recorded approximately \$8 million of noncash pretax gains on issuances of stock by equity investees. These gains primarily related to the issuance by CCE of common stock valued at an amount greater than the book value per share of our investment in CCE. This transaction reduced our ownership interest in the total outstanding shares of CCE common stock by less than 1 percent.

In July 2001, CCE completed its acquisition of Hondo Incorporated and Herbco Enterprises, Inc., collectively known as Herb Coca-Cola. The transaction was valued at approximately \$1.4 billion, with approximately 30 percent of the transaction funded with the issuance of approximately 25 million shares of CCE common stock, and the remaining portion funded through debt and assumed debt. The issuance of shares resulted in a noncash pretax gain for our Company of approximately \$91 million. This gain represents the increase in our Company's equity in the underlying net assets of the related investee. This transaction reduced our ownership interest in the total outstanding shares of CCE common stock from approximately 40 percent to approximately 38 percent.

No gains on issuances of stock by equity investees were recorded to our statements of income during 2002.

Refer to Note 3.

Income Taxes

Our effective tax rate reflects tax benefits derived from significant operations outside the United States, which are generally taxed at rates lower than the U.S. statutory rate of 35 percent. During 2003, the Company's results benefited from a lower effective tax rate because of increased profit contributions from lower taxed locations resulting from favorable currency exchange rates and other business conditions.

Our effective tax rate of approximately 21 percent for the year ended December 31, 2003 reflects the following:

- the favorable resolution of various tax matters (approximately \$50 million) during the fourth quarter of 2003, partially offset by additional taxes primarily related to the repatriation of funds;
- the effective tax rate for the costs related to the streamlining initiatives of approximately 33 percent;
- the effective tax rate for the proceeds received related to the vitamin antitrust litigation matter of approximately 34 percent;
- the effective tax rate for the charge related to a Latin American equity investee of approximately 3 percent; and
- the effective tax rate for all other pretax income of approximately 22 percent.

The effective tax rate for 2002 of 27.7 percent included the impact of the following:

- the effective tax rate for our share of the gain on the sale of Kaiser S.A. interests of approximately 39 percent;
- we concluded it was more likely than not that tax benefits would not be realized on the write-down of certain investments, primarily in Latin America; thus we recorded a valuation allowance to offset the future tax benefit resulting in an increase of our effective tax rate; and
- the effective tax rate for all other pretax income of approximately 27 percent.

During the first quarter of 2000, the U.S. and Japan taxing authorities entered into an Advance Pricing Agreement (“APA”) whereby the level of royalties paid by Coca-Cola (Japan) Company, Ltd. (our “Subsidiary”) to our Company was established for the years 1993 through 2001. Pursuant to the terms of the APA, our Subsidiary filed amended returns for the applicable periods reflecting the negotiated royalty rate. These amended returns resulted in the payment during the first and second quarters of 2000 of additional Japanese taxes. The effect on our financial performance and our effective tax rate was not material, due primarily to offsetting tax credits utilized on our U.S. income tax returns. The majority of the offsetting tax credits were realized in the first quarter of 2002.

Looking into 2004 and for the foreseeable future, based on current tax laws, the Company’s effective tax rate on operations is expected to be approximately 25.5 percent.

Cumulative Effect of Accounting Change for SFAS No. 142, Net of Income Taxes

The cumulative effect of adopting SFAS No. 142 as of January 1, 2002 resulted in a noncash, after-tax decrease to net income of \$367 million for Company operations and \$559 million for the Company’s proportionate share of its equity method investees. The adoption of this accounting standard resulted in a pretax reduction in 2002 amortization expense of approximately \$60 million, and an increase in 2002 equity income of approximately \$150 million. Refer to Notes 1 and 4.

Volume

We measure our sales volume in two ways: (1) gallons and (2) unit cases of finished products. “Gallons” is a unit of measurement for concentrates, syrups, beverage bases, finished beverages and powders (in all cases, expressed in equivalent gallons of syrup) for all beverage products which are reportable as unit case volume. Most of our revenues are based on gallon sales, as discussed under Item 1 and MD&A heading “Net Operating Revenues.” Gallon sales and unit case volume are not necessarily equal during any given period. Items such as seasonality, bottlers’ inventory practices, supply point changes, timing of price increases and new product introductions can create differences between gallon sales and unit case volume.

Although most of our Company’s revenues are not based directly on unit case volume, we believe unit case volume is one of the measures of the underlying strength of the Coca-Cola System because it measures trends at the consumer level. The Coca-Cola System sold approximately 19.4 billion unit cases of our products in 2003 and approximately 18.7 billion unit cases in 2002. Approximate 2003 and 2002 unit case volume growth results are as follows:

| | Percentage Change | |
|--------------------------------|-------------------|---------------|
| | 2003 vs. 2002 | 2002 vs. 2001 |
| Worldwide | 4 | 5 |
| North America operations | 2 | 6 |
| International operations—total | 5 | 5 |
| Africa | 5 | 7 |
| Asia | 4 | 10 |
| Europe, Eurasia & Middle East | 5 | 5 |
| Latin America | 4 | 2 |

Liquidity, Capital Resources and Financial Position

We believe our ability to generate cash from operations to reinvest in our business is one of our fundamental financial strengths. We expect cash flows from operations to be strong in 2004 and in future years. For the five-year period from 2004 through 2008, we currently estimate that cumulative net cash provided from operating activities will be in excess of \$32 billion. Accordingly, our Company expects to meet all our financial commitments and operating needs during this time frame. We expect to use cash generated from operating activities primarily for dividends, share repurchases, acquisitions and aggregate contractual obligations.

Cash Flows from Operating Activities and Investing Activities

Our statements of cash flows are summarized as follows (in millions):

| Year Ended December 31, | 2003 | 2002 | 2001 |
|---|-----------------|------------|------------|
| Net cash provided by operating activities | \$ 5,456 | \$ 4,742 | \$ 4,110 |
| Cash flows (used in) provided by investing activities: | | | |
| Acquisitions and investments | \$ (359) | \$ (544) | \$ (651) |
| Purchases of investments and other assets | (177) | (141) | (456) |
| Proceeds from disposals of investments and other assets | 147 | 243 | 455 |
| Purchases of property, plant and equipment | (812) | (851) | (769) |
| Other investing activities | 265 | 228 | 233 |
| Net cash used in investing activities | \$ (936) | \$ (1,065) | \$ (1,188) |

Cash flows from operating activities increased by 15 percent for 2003 compared to 2002. The key component of this increase was increased profits in 2003 versus 2002. The following items also significantly impacted cash flows:

- Collection by the Company in 2002 of approximately \$280 million, in connection with the APA reached between the United States and Japan in 2000, impacted the net change in operating assets and liabilities for 2002. The APA established the level of royalties paid by Coca-Cola (Japan) Company Ltd. to our Company for the years 1993 through 2001.
- Funding of our primary qualified U.S. pension plan impacted our cash flows from operations. Approximately \$166 million was funded in 2003 compared to approximately \$124 million in 2002.
- Streamlining costs in 2003 accounted for significant cash payments. Refer to Note 17.

Cash flows from operating activities increased by 15 percent for 2002 compared to 2001, primarily as a result of improved worldwide business operating results. Additionally, as stated above, collection of approximately \$280 million in connection with the APA increased our 2002 cash flows. These increases were partially offset by the following:

- Funding in 2002 of our primary qualified U.S. pension plan of approximately \$124 million as stated above. We made a payment of approximately \$105 million to the primary qualified U.S. pension plan in 2001.
- A stronger U.S. dollar.

Purchases of property, plant and equipment accounted for the most significant cash outlays for investing activities in each of three years ended December 31, 2003. Our Company currently estimates that purchases of property, plant and equipment in 2004 will be less than \$1 billion.

Total capital expenditures for property, plant and equipment (including our investments in information technology) and the percentage of such totals by operating segment for 2003, 2002 and 2001 are as follows:

| Year Ended December 31, | 2003 | 2002 | 2001 |
|------------------------------------|--------|--------|--------|
| Capital expenditures (in millions) | \$ 812 | \$ 851 | \$ 769 |
| North America | 38% | 39% | 44% |
| Africa | 2% | 2% | 1% |
| Asia | 18% | 25% | 14% |
| Europe, Eurasia & Middle East | 24% | 19% | 14% |
| Latin America | 4% | 4% | 5% |
| Corporate | 14% | 11% | 22% |

Acquisitions and investments represented the next most significant investing activity accounting for \$359 million in 2003, \$544 million in 2002 and \$651 million in 2001. Our single largest 2003 acquisition requiring the use of cash was the purchase of a 100 percent ownership interest in Truesdale Packaging Company LLC (“Truesdale”) from CCE for cash consideration of approximately \$58 million. Truesdale owns a noncarbonated beverage production facility. In 2003, acquisitions of intangible assets totaled approximately \$142 million. Of this amount, approximately \$88 million related to the Company’s acquisition of certain intangible assets with indefinite lives, primarily trademarks and brands in various parts of the world. None of these trademarks and brands was considered individually significant. Additionally, the Company acquired certain brands and related contractual rights from Panamco valued at \$54 million in the Latin America operating segment with an estimated useful life of 10 years.

In 2002, our Company expended cash of approximately \$328 million for acquisitions of our interests in CBC and CCDA. In 2001, our Company completed several acquisitions; however, none was individually material.

Refer to Note 18.

In July 2003, we made a convertible loan of approximately \$133 million to The Coca-Cola Bottling Company of Egypt (“TCCBCE”). The loan is convertible into preferred shares of TCCBCE upon receipt of governmental approvals. Additionally, upon certain defaults under either the loan agreement or the terms of the preferred shares, we have the ability to convert the loan or the preferred shares into common shares. At December 31, 2003, our Company owned approximately 42 percent of the common shares of TCCBCE.

In November 2003, CCHBC approved a share capital reduction totaling approximately 473 million euros and the return of 2 euros per share to all share owners. In December 2003, our Company received our share capital return payment from CCHBC equivalent to \$136 million. Refer to Note 2.

Financing Activities

Our cash flows used in financing activities are as follows (in millions):

| Year Ended December 31, | 2003 | 2002 | 2001 |
|--|------------|------------|------------|
| Cash flows (used in) provided by financing activities: | | | |
| Issuances of debt | \$ 1,026 | \$ 1,622 | \$ 3,011 |
| Payments of debt | (1,119) | (2,378) | (3,937) |
| Issuances of stock | 98 | 107 | 164 |
| Purchases of stock for treasury | (1,440) | (691) | (277) |
| Dividends | (2,166) | (1,987) | (1,791) |
| Net cash used in financing activities | \$ (3,601) | \$ (3,327) | \$ (2,830) |

Issuances and payments of debt included both short-term and long-term financing activities. On December 31, 2003, we had \$1,576 million in lines of credit and other short-term credit facilities available,

of which approximately \$246 million was outstanding. This entire \$246 million related to our international operations.

The issuances of debt in 2003 primarily included approximately \$304 million of issuances of commercial paper with maturities 90 days or less and approximately \$715 million of issuances of commercial paper with maturities more than 90 days. The payments of debt in 2003 primarily included approximately \$907 million related to commercial paper with maturities more than 90 days and \$150 million of long-term debt.

The issuances of debt in 2002 primarily included approximately \$832 million of issuances of commercial paper with maturities of more than 90 days and \$750 million in issuances of long-term notes due June 1, 2005. The payments of debt in 2002 primarily included approximately \$816 million related to commercial paper with maturities of more than 90 days, net payments of \$1,280 million related to commercial paper with maturities of 90 days or less and the \$150 million redemption of 6⁵/₈ percent U.S. dollar notes.

The issuances of debt in 2001 primarily included approximately \$2,383 million of issuances of commercial paper with maturities of more than 90 days. In 2001, we also had a \$500 million issuance of long-term debt. The payments of debt in 2001 primarily included approximately \$3,864 million related to commercial paper with maturities of more than 90 days. Net issuances related to commercial paper with maturities of 90 days or less were \$40 million in 2001.

During 2003, 2002 and 2001, the Company repurchased common stock under the share repurchase plan authorized by our Board of Directors in October 1996. As strong cash flows are expected to continue in the future, the Company currently expects to increase its 2004 share repurchase levels to at least \$2 billion. Refer to MD&A heading "Financial Strategies and Risk Management."

Dividends have increased every year for each of the last 42 years, and we believe that for the foreseeable future, our Board of Directors intends to increase our dividends.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-Balance Sheet Arrangements. In accordance with the definition under Securities and Exchange Commission rules, the following qualify as off-balance sheet arrangements:

- any obligation under certain guarantees or contracts;
- a retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- any obligation under certain derivative instruments;
- any obligation under a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

The following discussion addresses each of the above items for our Company. On December 31, 2003, our Company was contingently liable for guarantees of indebtedness owed by third parties in the amount of \$280 million. Management concluded that the likelihood of any material amounts being paid by our Company is not probable. In December 2003, we granted a \$250 million stand-by line of credit to Coca-Cola FEMSA with normal market terms. We do not provide any other guarantees. As of December 31, 2003, we were not directly liable for the debt of any unconsolidated entity, and we do not have any retained or contingent interest in assets as defined above. Additionally, our Company recognizes all derivative instruments as either assets or liabilities at fair value in our balance sheets. Refer to Notes 10 and 11.

Our Company has equity ownership interests in bottlers that we currently account for under the equity method of accounting. For certain entities, primarily bottlers, our Company holds variable interests such as providing financing and guarantees, in addition to our equity investments. As a result, these entities are

considered variable interest entities, and we expect to consolidate such variable interest entities effective March 31, 2004. Refer to Note 1. The difference between consolidation and the equity method impacts certain financial ratios because of the presentation of the detailed line items reported in the financial statements. However, consolidated net income for the period and our share-owners' equity at the end of the period are the same whether the investment is accounted for under the equity method or is consolidated.

Aggregate Contractual Obligations. As of December 31, 2003, the Company's contractual obligations, including payments due by period, are as follows (in millions):

| | Payments Due by Period | | | | |
|---|------------------------|-----------------|-----------------|-----------------|---------------------|
| | Total | 2004 | 2005–2006 | 2007–2008 | 2009 and Thereafter |
| Short-term loans and notes payable ¹ : | | | | | |
| Commercial paper borrowings | \$ 2,234 | \$ 2,234 | \$ — | \$ — | \$ — |
| Lines of credit and other short-term borrowings | 349 | 349 | — | — | — |
| Current maturities of long-term debt ² | 323 | 323 | — | — | — |
| Long-term debt ² | 2,517 | — | 1,404 | 11 | 1,102 |
| Estimated interest payments ³ | 1,253 | 136 | 162 | 130 | 825 |
| Marketing and other commitments ⁴ | 3,144 | 918 | 865 | 561 | 800 |
| Purchase commitments ⁵ | 5,979 | 1,230 | 1,209 | 738 | 2,802 |
| Other long-term liabilities: | | | | | |
| Liability to CCEAG share owners ⁶ | 1,034 | 32 | 1,002 | — | — |
| Miscellaneous ⁷ | 32 | — | 32 | — | — |
| Total contractual obligations | \$ 16,865 | \$ 5,222 | \$ 4,674 | \$ 1,440 | \$ 5,529 |

¹ Refer to Note 6 for information regarding short-term loans and notes payable. Upon payment of commercial paper borrowings, we typically expect to issue new commercial paper borrowings. Lines of credit and other short-term borrowings are expected to fluctuate depending upon current liquidity needs, especially at international subsidiaries.

² Refer to Note 7 for information regarding long-term debt. We expect to settle such long-term debt by several options including cash flows from operations, issuance of commercial paper or issuance of other long-term debt.

³ We calculated estimated interest payments for short-term loans and notes payable and long-term debt as follows. For fixed-rate debt and term debt, we calculated interest based on the applicable rates and payment dates. For variable-rate debt and/or nonterm debt, we estimated interest rates and payment dates based on our determination of the most likely scenarios for each relevant debt instrument. We typically expect to settle such interest payments with cash flows from operations and short-term borrowings.

⁴ Refer to Note 11 for information regarding marketing and other commitments. We expect to fund these commitments with cash flows from operations. We have excluded expected payments for volume-related programs, such as payments to unconsolidated bottlers or customers that are generally determined and committed to on an annual basis.

⁵ The purchase commitments include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including open purchase orders. We expect to fund these commitments with cash flows from operations.

⁶ The amount represents the estimated cash to be paid to CCEAG share owners. Refer to Note 18 for discussion of the present value of our liability to CCEAG share owners. We will consider several options to settle this liability including cash flows from operations, issuance of commercial paper, or issuance of other long-term debt.

⁷ The remaining miscellaneous amount represents several individually insignificant items that will require liquidity in future periods. We generally expect to fund these items with cash flows from operations.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the total accrued benefit liability for pension and other postretirement benefit plans recognized as of December 31, 2003 is \$1,084 million. Refer to Note 14. This accrued liability is included in the balance sheet line item other liabilities. This amount is impacted by, among other items, funding levels, changes in plan demographics and assumptions and investment return on plan assets. Because the accrued liability does not represent expected liquidity needs, we did not include this amount in the contractual obligations table.

We fund our U.S. qualified pension plans in accordance with ERISA regulations for the minimum annual required contribution and in accordance with IRS regulations for the maximum annual allowable tax deduction. The minimum required contribution for our primary qualified U.S. pension plan for the 2004 plan year is \$0 and is anticipated to remain \$0 for at least the next several years due to large contributions made to the plan over the past three years. Therefore, we did not include any amounts as a contractual obligation in the above table. However, the following provides information about 2004 contributions. We contributed \$100 million to the primary U.S. qualified pension plan in January 2004, and we anticipate contributing up to an additional \$65 million to this plan later in 2004, or contributing up to the maximum deductible amount. Furthermore, we expect to contribute up to \$55 million to the U.S. postretirement health care benefit plan during 2004. We funded the \$100 million payment with cash flows from operations, and we generally expect to fund all future contributions with cash flows from operations.

Our international pension plans are funded in accordance with local laws and income tax regulations. We do not expect contributions to these plans to be material in 2004 or years thereafter. Therefore, no amounts have been included in the table above.

As of December 31, 2003, the projected benefit obligation of the U.S. qualified pension plans was \$1,356 million, and the fair value of plan assets was \$1,467 million. As of December 31, 2003, the projected benefit obligation of all pension plans other than the U.S. qualified pension plans was \$1,139 million, and the fair value of all other pension plan assets was \$557 million. The majority of this difference is attributable to an international pension plan for certain non-U.S. employees that is unfunded due to tax law restrictions, as well as our unfunded U.S. nonqualified pension plans. These U.S. nonqualified pension plans provide benefits for certain members of management that are not permitted to be funded through a qualified plan because of limits imposed by the Internal Revenue Code. Disclosure of amounts in the above table regarding expected benefit payments to unfunded pension plans and our other postretirement benefit plans cannot be properly reflected due to the ongoing nature of the obligations of these plans. However, in order to inform the reader about such payments, we anticipate annual payments to be in the range of approximately \$45 million to \$55 million in 2004 and remain at or near this annual level for the next several years.

Deferred income tax liabilities as of December 31, 2003 were \$337 million. Refer to Note 15. This amount is not included in the total contractual obligations table because we believe this presentation would not be meaningful. Deferred income tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their book basis that will result in taxable amounts in future years when the book basis is settled. The results of these calculations do not have any connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling deferred income tax liabilities as payments due by period could be misleading because this scheduling would not relate to liquidity needs.

Minority interests of \$191 million as of December 31, 2003 for consolidated entities in which we do not have a 100 percent ownership interest were recorded in the balance sheet line item other liabilities. Such minority interests are not liabilities requiring the use of cash or other resources; therefore, this amount is excluded from the contractual obligations table.

Exchange

Our international operations are subject to certain opportunities and risks, including currency fluctuations and governmental actions. We closely monitor our operations in each country and seek to adopt appropriate strategies that are responsive to changing economic and political environments and to fluctuations in foreign currencies.

We use 52 functional currencies. Due to our global operations, weaknesses in some of these currencies are often offset by strengths in others. In 2003, 2002 and 2001, the weighted-average exchange rates for foreign currencies in which the Company conducts operations (all operating currencies), and for certain individual currencies, strengthened (weakened) against the U.S. dollar as follows:

| Year Ended December 31, | 2003 | 2002 | 2001 |
|--------------------------|-------|-------|-------|
| All operating currencies | 8 % | (3)% | (8)% |
| Australian dollar | 20 % | 5 % | (13)% |
| British pound | 8 % | 5 % | (5)% |
| Euro | 21 % | 5 % | (5)% |
| Japanese yen | 8 % | (3)% | (11)% |
| Mexican peso | (11)% | (3)% | 1 % |
| South African rand | 41 % | (20)% | (17)% |

These percentages do not include the effects of our hedging activities and, therefore, do not reflect the actual impact of fluctuations in exchange on our operating results. Our foreign currency management program is designed to mitigate, over time, a portion of the impact of exchange on net income and earnings per share. Taking into account the effects of our hedging activities, the impact of a weaker U.S. dollar increased our operating income by approximately 2 percent in 2003. The impact of a stronger U.S. dollar reduced our operating income by approximately 3 percent in 2002 and approximately 5 percent in 2001. Based on forecasts as of December 31, 2003, the Company expects exchange to have a positive impact on our 2004 operating results when compared to 2003.

Exchange gains (losses)—net amounted to \$(76) million in 2003, \$(118) million in 2002 and \$(9) million in 2001 and were recorded in other income (loss)—net in our statements of income. Exchange gains (losses)—net include the remeasurement of monetary assets and liabilities from certain currencies into functional currencies and the costs of hedging certain exposures of our balance sheet.

Refer to Note 10.

Financial Position

Our balance sheet as of December 31, 2003, as compared to our balance sheet as of December 31, 2002, was impacted by the following:

- A \$1,102 million increase in cash and cash equivalents due primarily to increased cash flows from operations;
- The increase in our equity method investment in Coca-Cola FEMSA of \$327 million and the decrease in equity method investments, other, principally bottling companies, of \$357 million were primarily due to the merger of Coca-Cola FEMSA and Panamco. Refer to Note 2. The overall increase in equity method investments of approximately \$487 million from December 31, 2002 to December 31, 2003 was primarily due to a benefit in 2003 currency translation and an increase in 2003 equity income, net of dividends.
- The increase in other assets from \$2,694 million at December 31, 2002 to \$3,322 million at December 31, 2003 resulted primarily from Company contributions of \$166 million to the primary U.S. qualified pension plan and a reversal of \$191 million related to the additional minimum liability for the Company's

primary U.S. qualified pension plan because the plan did not have an unfunded accumulated benefit obligation as of December 31, 2003.

- The overall increase in total assets as of December 31, 2003 compared to December 31, 2002 primarily related to the increase in cash and cash equivalents mentioned above (which impacted our Corporate operating segment) and the impact of a stronger euro (which impacted our Europe, Eurasia and Middle East operating segment) and Japanese yen (which impacted our Asia operating segment), partially offset by the impact of weakening currencies impacting the Latin America segment.

Impact of Inflation and Changing Prices

Inflation affects the way we operate in many markets around the world. In general, we believe that over time we are able to increase prices to counteract the majority of the inflationary effects of increasing costs and to generate sufficient cash flows to maintain our productive capability.

Forward-Looking Statements

Certain written and oral statements made by our Company and subsidiaries or with the approval of an authorized executive officer of our Company may constitute “forward-looking statements” as defined under the Private Securities Litigation Reform Act of 1995, including statements made in this report and other filings with the Securities and Exchange Commission. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future—including statements relating to volume growth, share of sales and earnings per share growth and statements expressing general optimism about future operating results—are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company’s historical experience and our present expectations or projections. As and when made, management believes that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following are some of the factors that could cause our Company’s actual results to differ materially from the expected results described in or underlying our Company’s forward-looking statements:

- Economic and political conditions, especially in international markets, including civil unrest, product boycotts, governmental changes and restrictions on the ability to transfer capital across borders. Without limiting the preceding sentence, the current unstable economic and political conditions and civil unrest in the Middle East, North Korea or elsewhere, the unstable situation in Iraq, or the continuation or escalation of terrorism, could have adverse impacts on our Company’s business results or financial condition.
- Changes in the nonalcoholic beverages business environment. These include, without limitation, changes in consumer preferences, including changes based on health and nutrition considerations; competitive product and pricing pressures; and our ability to gain or maintain share of sales in the global market as a result of actions by competitors. Factors such as these could impact our earnings, share of sales and volume growth.
- Foreign currency rate fluctuations, interest rate fluctuations and other capital market conditions. Most of our exposures to capital markets, including foreign currency and interest rates, are managed on a consolidated basis, which allows us to net certain exposures and, thus, take advantage of any natural offsets. We use derivative financial instruments to reduce our net exposure to financial risks. There can

be no assurance, however, that our financial risk management program will be successful in reducing capital market exposures.

- Adverse weather conditions, which could reduce demand for Company products.
- The effectiveness of our advertising, marketing and promotional programs.
- Fluctuations in the cost and availability of raw materials, the cost of energy, transportation and other necessary services; our ability to maintain favorable supplier arrangements and relationships; and our ability to avoid disruptions in production output caused by events such as natural disasters, power outages, labor strikes or the like.
- Our ability to achieve earnings forecasts, which are generated based on projected volumes and sales of many product types, some of which are more profitable than others. There can be no assurance that we will achieve the projected level or mix of product sales.
- Our ability to effectively align ourselves with our bottling system as we focus on increasing the investment in our brands; seeking efficiencies throughout the supply chain; delivering more value for our customers; and better meeting the needs of our consumers.
- Changes in laws and regulations, including changes in accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax law interpretations), laws concerning food and beverages, competition laws, employment laws and environmental laws in domestic or foreign jurisdictions.
- Our ability to penetrate developing and emerging markets, which also depends on economic and political conditions, and how well we are able to acquire or form strategic business alliances with local bottlers and make necessary infrastructure enhancements to production facilities, distribution networks, sales equipment and technology. Moreover, the supply of products in developing markets must match the customers' demand for those products, and due to product price and cultural differences, there can be no assurance of product acceptance in any particular market.
- The uncertainties of litigation, as well as other risks and uncertainties detailed from time to time in our Company's Securities and Exchange Commission filings.

The foregoing list of important factors is not exclusive.

Additional Information

For additional information about our operations, cash flows, liquidity and capital resources, refer to Item 8. For additional information concerning our operating segments, refer to Note 19.