## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this Item is incorporated herein by reference to (i) the information in Item 7 of this report under the heading "Financial Risk Management" and (ii) Note 10 to the Consolidated Financial Statements included under Item 8 of this report.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## CONSOLIDATED STATEMENTS OF INCOME

***The Coca-Cola Company and Subsidiaries***

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| (In millions except per share data) | | | |
| **NET OPERATING REVENUES** | **$ 21,044** | $ 19,564 | $ 17,545 |
| Cost of goods sold | **7,762** | 7,105 | 6,044 |
| **GROSS PROFIT** | **13,282** | 12,459 | 11,501 |
| Selling, general and administrative expenses | **7,488** | 7,001 | 6,149 |
| Other operating charges | **573** | — | — |
| **OPERATING INCOME** | **5,221** | 5,458 | 5,352 |
| Interest income | **176** | 209 | 325 |
| Interest expense | **178** | 199 | 289 |
| Equity income—net | **406** | 384 | 152 |
| 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 |
| Income taxes | **1,148** | 1,523 | 1,691 |
| **NET INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE** | **4,347** | 3,976 | 3,979 |
| 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 |
| **BASIC NET INCOME PER SHARE:** | | | |
| Before accounting change | **$ 1.77** | $ 1.60 | $ 1.60 |
| Cumulative effect of accounting change | **—** | (0.37) | — |
| | **$ 1.77** | $ 1.23 | $ 1.60 |
| **DILUTED NET INCOME PER SHARE:** | | | |
| Before accounting change | **$ 1.77** | $ 1.60 | $ 1.60 |
| Cumulative effect of accounting change | **—** | (0.37) | — |
| | **$ 1.77** | $ 1.23 | $ 1.60 |
| **AVERAGE SHARES OUTSTANDING** | **2,459** | 2,478 | 2,487 |
| Effect of dilutive securities | **3** | 5 | — |
| **AVERAGE SHARES OUTSTANDING ASSUMING DILUTION** | **2,462** | 2,483 | 2,487 |

Refer to Notes to Consolidated Financial Statements.

## CONSOLIDATED BALANCE SHEETS

***The Coca-Cola Company and Subsidiaries***

| December 31, (In millions) | **2003** | 2002 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash and cash equivalents | **$ 3,362** | $ 2,260 |
| Marketable securities | **120** | 85 |
| | **3,482** | 2,345 |
| Trade accounts receivable, less allowances of $61 in 2003 and $55 in 2002 | **2,091** | 2,097 |
| Inventories | **1,252** | 1,294 |
| Prepaid expenses and other assets | **1,571** | 1,616 |
| **TOTAL CURRENT ASSETS** | **8,396** | 7,352 |
| **INVESTMENTS AND OTHER ASSETS** | | |
| Equity method investments: | | |
| Coca-Cola Enterprises Inc. | **1,260** | 972 |
| Coca-Cola Hellenic Bottling Company S.A. | **941** | 872 |
| Coca-Cola FEMSA, S.A. de C.V. | **674** | 347 |
| Coca-Cola Amatil Limited | **652** | 492 |
| Other, principally bottling companies | **1,697** | 2,054 |
| Cost method investments, principally bottling companies | **314** | 254 |
| Other assets | **3,322** | 2,694 |
| | **8,860** | 7,685 |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Land | **419** | 385 |
| Buildings and improvements | **2,615** | 2,332 |
| Machinery and equipment | **6,159** | 5,888 |
| Containers | **429** | 396 |
| | **9,622** | 9,001 |
| Less allowances for depreciation | **3,525** | 3,090 |
| | **6,097** | 5,911 |
| **TRADEMARKS WITH INDEFINITE LIVES** | **1,979** | 1,724 |
| **GOODWILL** | **1,029** | 876 |
| **OTHER INTANGIBLE ASSETS** | **981** | 858 |
| **TOTAL ASSETS** | **$ 27,342** | $ 24,406 |

Refer to Notes to Consolidated Financial Statements.

## *The Coca-Cola Company and Subsidiaries*

| December 31, (In millions except share data) | 2003 | 2002 |
|---|---|---|
| **LIABILITIES AND SHARE-OWNERS' EQUITY** | | |
| **CURRENT** | | |
| Accounts payable and accrued expenses | **$ 4,058** | $ 3,692 |
| Loans and notes payable | **2,583** | 2,475 |
| Current maturities of long-term debt | **323** | 180 |
| Accrued income taxes | **922** | 994 |
| **TOTAL CURRENT LIABILITIES** | **7,886** | 7,341 |
| **LONG-TERM DEBT** | **2,517** | 2,701 |
| **OTHER LIABILITIES** | **2,512** | 2,260 |
| **DEFERRED INCOME TAXES** | **337** | 304 |
| **SHARE-OWNERS' EQUITY** | | |
| Common stock, $0.25 par value Authorized: 5,600,000,000 shares; issued: 3,494,799,258 shares in 2003 and 3,490,818,627 shares in 2002 | **874** | 873 |
| Capital surplus | **4,395** | 3,857 |
| Reinvested earnings | **26,687** | 24,506 |
| Accumulated other comprehensive income (loss) | **(1,995)** | (3,047) |
| | **29,961** | 26,189 |
| Less treasury stock, at cost (1,053,267,474 shares in 2003; 1,019,839,490 shares in 2002) | **(15,871)** | (14,389) |
| | **14,090** | 11,800 |
| **TOTAL LIABILITIES AND SHARE-OWNERS' EQUITY** | **$ 27,342** | $ 24,406 |

Refer to Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

***The Coca-Cola Company and Subsidiaries***

| Year Ended December 31, (In millions) | **2003** | 2002 | 2001 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net income | **$ 4,347** | $ 3,050 | $ 3,969 |
| Depreciation and amortization | **850** | 806 | 803 |
| Stock-based compensation expense | **422** | 365 | 41 |
| Deferred income taxes | **(188)** | 40 | 56 |
| Equity income or loss, net of dividends | **(294)** | (256) | (54) |
| Foreign currency adjustments | **(79)** | (76) | (60) |
| Gains on issuances of stock by equity investees | **(8)** | — | (91) |
| (Gains) losses on sales of assets, including bottling interests | **(5)** | 3 | (85) |
| Cumulative effect of accounting changes | **—** | 926 | 10 |
| Other operating charges | **330** | — | — |
| Other items | **249** | 291 | (17) |
| Net change in operating assets and liabilities | **(168)** | (407) | (462) |
| Net cash provided by operating activities | **5,456** | 4,742 | 4,110 |
| **INVESTING ACTIVITIES** | | | |
| Acquisitions and investments, principally trademarks and bottling companies | **(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) |
| Proceeds from disposals of property, plant and equipment | **87** | 69 | 91 |
| Other investing activities | **178** | 159 | 142 |
| Net cash used in investing activities | **(936)** | (1,065) | (1,188) |
| **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) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **183** | 44 | (45) |
| **CASH AND CASH EQUIVALENTS** | | | |
| Net increase during the year | **1,102** | 394 | 47 |
| Balance at beginning of year | **2,260** | 1,866 | 1,819 |
| Balance at end of year | **$ 3,362** | $ 2,260 | $ 1,866 |

Refer to Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF SHARE-OWNERS' EQUITY

### *The Coca-Cola Company and Subsidiaries*

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| (In millions except per share data) | | | |
| **NUMBER OF COMMON SHARES OUTSTANDING** | | | |
| Balance at beginning of year | **2,471** | 2,486 | 2,485 |
| Stock issued to employees exercising stock options | **4** | 3 | 7 |
| Purchases of stock for treasury[1] | **(33)** | (14) | (6) |
| Adoption of SFAS No. 123 | **—** | (4) | — |
| Balance at end of year | **2,442** | 2,471 | 2,486 |
| **COMMON STOCK** | | | |
| Balance at beginning of year | **$ 873** | $ 873 | $ 870 |
| Stock issued to employees exercising stock options | **1** | 1 | 2 |
| Restricted stock and other stock plans, less cancellations | **—** | — | 1 |
| Adoption of SFAS No. 123 | **—** | (1) | — |
| Balance at end of year | **874** | 873 | 873 |
| **CAPITAL SURPLUS** | | | |
| Balance at beginning of year | **3,857** | 3,520 | 3,196 |
| Stock issued to employees exercising stock options | **105** | 111 | 162 |
| Tax benefit from employees' stock option and restricted stock plans | **11** | 11 | 58 |
| Stock-based compensation | **422** | 365 | — |
| Restricted stock and other stock plans, less amortization and cancellations | **—** | — | 132 |
| Unearned restricted stock adjustment | **—** | — | (28) |
| Adoption of SFAS No. 123 | **—** | (150) | — |
| Balance at end of year | **4,395** | 3,857 | 3,520 |
| **REINVESTED EARNINGS** | | | |
| Balance at beginning of year | **24,506** | 23,443 | 21,265 |
| Net income | **4,347** | 3,050 | 3,969 |
| Dividends (per share—$0.88, $0.80 and $0.72 in 2003, 2002 and 2001, respectively) | **(2,166)** | (1,987) | (1,791) |
| Balance at end of year | **26,687** | 24,506 | 23,443 |
| **OUTSTANDING RESTRICTED STOCK** | | | |
| Balance at beginning of year | **—** | (150) | (195) |
| Adoption of SFAS No. 123 | **—** | 150 | — |
| Restricted stock and other stock plans, less cancellations | **—** | — | (24) |
| Amortization of restricted stock | **—** | — | 41 |
| Unearned restricted stock adjustment | **—** | — | 28 |
| Balance at end of year | **—** | — | (150) |
| **ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Balance at beginning of year | **(3,047)** | (2,638) | (2,527) |
| Net foreign currency translation adjustment | **921** | (95) | (207) |
| Cumulative effect of adoption of SFAS No. 133 | **—** | — | 50 |
| Net gain (loss) on derivatives | **(33)** | (186) | 92 |
| Net change in unrealized gain (loss) on available-for-sale securities | **40** | 67 | (29) |
| Net change in minimum pension liability | **124** | (195) | (17) |
| Net other comprehensive income adjustments | **1,052** | (409) | (111) |
| Balance at end of year | **(1,995)** | (3,047) | (2,638) |
| **TREASURY STOCK** | | | |
| Balance at beginning of year | **(14,389)** | (13,682) | (13,293) |
| Purchases of treasury stock | **(1,482)** | (707) | (277) |
| Restricted stock and other stock plans, less cancellations | **—** | — | (112) |
| Balance at end of year | **(15,871)** | (14,389) | (13,682) |
| **TOTAL SHARE-OWNERS' EQUITY** | **$ 14,090** | $ 11,800 | $ 11,366 |
| **COMPREHENSIVE INCOME** | | | |
| Net income | **$ 4,347** | $ 3,050 | $ 3,969 |
| Net other comprehensive income adjustments | **1,052** | (409) | (111) |
| **TOTAL COMPREHENSIVE INCOME** | **$ 5,399** | $ 2,641 | $ 3,858 |

[1] Common stock purchased from employees exercising stock options numbered 0.4 million, 0.2 million and 0.3 million shares for the years ended December 31, 2003, 2002 and 2001, respectively.

Refer to Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*The Coca-Cola Company and Subsidiaries*

### NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Organization*

The Coca-Cola Company is predominantly a manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups. In these notes, the terms "Company," "we," "us" or "our" mean The Coca-Cola Company and all subsidiaries included in the consolidated financial statements. Operating in more than 200 countries worldwide, we primarily sell our concentrates and syrups, as well as some finished beverages, to bottling and canning operations, distributors, fountain wholesalers and fountain retailers. We also market and distribute juices and juice drinks, sports drinks, water products, teas, coffees and other beverage products. Additionally, we have ownership interests in numerous bottling and canning operations. Significant markets for our products exist in all the world's geographic regions.

#### *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 heading "New Accounting Standards" 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. 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.

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

Certain amounts in the prior years' financial statements have been reclassified to conform to the current-year presentation.

#### *Use of Estimates and Assumptions*

The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our financial statements and accompanying notes. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from estimates and assumptions.

#### *Risks and Uncertainties*

The Company's operations, at times, could be adversely affected by restrictions on imports and exports and sources of supply; a prolonged labor strike; duties or tariffs; changes in governmental regulations; the introduction of additional measures to control inflation; changes in the rate or method of taxation; the imposition of additional restrictions on currency conversion and remittances abroad; the expropriation of private

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

enterprise; or product issues such as a product recall. In addition, policy concerns particular to the United States with respect to a country in which the Company has operations could adversely affect our operations.

Our Company monitors our operations with a view to minimizing the impact to our overall business that could arise as a result of the risks inherent in our business.

### *Revenue Recognition*

Our Company recognizes revenue when title of our products is transferred to our bottling partners or our customers.

### *Advertising Costs*

Our Company expenses production costs of print, radio, television and other advertisements as of the first date the advertisements take place. Advertising expenses included in selling, general and administrative expenses were approximately $1.9 billion in 2003, approximately $1.8 billion in 2002 and approximately $2.0 billion in 2001. As of December 31, 2003 and 2002, advertising production costs of approximately $190 million and $170 million, respectively, were recorded in prepaid expenses and other assets and in noncurrent other assets in our balance sheets.

### *Stock-Based Compensation*

Our Company currently sponsors stock option plans and restricted stock award plans. Refer to Note 13. Prior to 2002, our Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”) and related interpretations. No stock-based employee compensation expense for stock options was reflected in net income for the year ended December 31, 2001, as all stock options granted under those plans had an exercise price equal to the fair market value of the underlying common stock on the date of grant. Effective January 1, 2002, our Company adopted the preferable fair value recognition provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation.” Our Company selected the modified prospective method of adoption described in SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure.” Compensation cost recognized in 2003 and 2002 is the same as that which would have been recognized had the fair value method of SFAS No. 123 been applied from its original effective date. In accordance with the modified prospective method of adoption, results for years prior to 2002 have not been restated.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table illustrates the effect on net income and earnings per share as if the fair value method had been applied to all outstanding and unvested awards in each period (in millions, except per share amounts):

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| Net income, as reported | **$ 4,347** | $ 3,050 | $ 3,969 |
| Add: Stock-based compensation expense included in reported net income, net of related tax effects | **308** | 267 | 29 |
| Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects | **(308)** | (267) | (231) |
| Pro forma net income | **$ 4,347** | $ 3,050 | $ 3,767 |
| Earnings per share: | | | |
| Basic—as reported | **$ 1.77** | $ 1.23 | $ 1.60 |
| Basic—pro forma | **$ 1.77** | $ 1.23 | $ 1.51 |
| Diluted—as reported | **$ 1.77** | $ 1.23 | $ 1.60 |
| Diluted—pro forma | **$ 1.77** | $ 1.23 | $ 1.51 |

### *Issuances of Stock by Equity Investees*

When one of our equity investees issues additional shares to third parties, our percentage ownership interest in the investee decreases. In the event the issuance price per share is more or less than our average carrying amount per share, we recognize a noncash gain or loss on the issuance. This noncash gain or loss, net of any deferred taxes, is generally recognized in our net income in the period the change of ownership interest occurs.

If gains have been previously recognized on issuances of an equity investee's stock and shares of the equity investee are subsequently repurchased by the equity investee, gain recognition does not occur on issuances subsequent to the date of a repurchase until shares have been issued in an amount equivalent to the number of repurchased shares. This type of transaction is reflected as an equity transaction, and the net effect is reflected in our balance sheets. Refer to Note 3.

### *Net Income Per Share*

We compute basic net income per share by dividing net income by the weighted-average number of shares outstanding. Diluted net income per share includes the dilutive effect of stock-based compensation awards, if any.

### *Cash Equivalents*

We classify marketable securities that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents.

### *Trade Accounts Receivable*

We record trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances and

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

charged to the provision for doubtful accounts. We calculate this allowance based on our history of write-offs, level of past due accounts and our relationships with and economic status of the customers.

### *Inventories*

Inventories consist primarily of raw materials, supplies, concentrates and syrups and are valued at the lower of cost or market. We determine cost on the basis of average cost or first-in, first-out methods.

### *Recoverability of Equity Method and Cost Method Investments*

Management periodically assesses the recoverability of our Company's equity method and cost method investments. For publicly traded investments, readily available quoted market prices are an indication of the fair value of our Company's investments. For non–publicly traded investments, management assesses fair value based on valuation methodologies, as appropriate, including discounted cash flows, estimates of sales proceeds and external appraisals, as appropriate. If an investment is considered to be impaired and the decline in value is other than temporary, we record an appropriate write-down.

### *Other Assets*

Our Company advances payments to certain customers for marketing to fund future 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. Additionally, our Company invests in infrastructure programs with our bottlers that are directed at strengthening our bottling system and increasing unit case volume. Management periodically evaluates the recoverability of these assets by preparing estimates of sales volume, the resulting gross profit, cash flows and other factors. The costs of these programs are recorded in prepaid expenses and other assets and noncurrent other assets and are subsequently amortized over the periods to be directly benefited. Amortization expense for infrastructure programs was $156 million, $176 million and $222 million, respectively, for the years ended December 31, 2003, 2002 and 2001. Refer to Note 2.

### *Property, Plant and Equipment*

We state property, plant and equipment at cost and depreciate such assets principally by the straight-line method over the estimated useful lives of the assets. Management assesses the recoverability of the carrying amount of property, plant and equipment if certain events or changes occur, such as a significant decrease in market value of the assets or a significant change in the business conditions in a particular market.

### *Goodwill, Trademarks and Other Intangible Assets*

Effective January 1, 2002, our Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." The adoption of SFAS No. 142 required an initial impairment assessment involving a comparison of the fair value of goodwill, trademarks and other intangible assets to current carrying value. Upon adoption, we recorded a loss for the cumulative effect of accounting change for SFAS No. 142, net of income taxes, of $367 million for Company operations and $559 million for equity investees. We did not restate prior periods for the adoption of SFAS No. 142.

Trademarks and other intangible assets determined to have indefinite useful lives 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 an asset might be impaired. Trademarks and other intangible

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

assets determined to have definite lives are amortized over their useful lives. We review such trademarks and other intangible assets with definite lives for impairment to ensure they are appropriately valued if conditions exist that may indicate the carrying value may not be recoverable. Such conditions may include an economic downturn in a geographic market or a change in the assessment of future operations. All goodwill is assigned to reporting units, which are one level below our operating segments. Goodwill is assigned to the reporting unit that benefits from the synergies arising from each business combination. 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. Impairment assessments are performed using a variety of methodologies, including cash flow analyses, estimates of sales proceeds and independent appraisals. Where applicable, an appropriate discount rate is used, based on the Company's cost of capital rate or location-specific economic factors. Refer to Note 4.

### *Derivative Financial Instruments*

Our Company accounts for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 was further amended by SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Our Company recognizes all derivative instruments as either assets or liabilities at fair value in our balance sheets. Refer to Note 10.

### *Retirement Related Benefits*

Using appropriate actuarial methods and assumptions, our Company accounts for defined benefit pension plans in accordance with SFAS No. 87, "Employers' Accounting for Pensions." We account for our nonpension postretirement benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." In 2003, we adopted SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits," for all U.S. plans. As permitted by this standard, we will adopt the disclosure provisions for all foreign plans for the year ending December 31, 2004. SFAS No. 132, as revised, requires additional disclosures about assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. This statement did not change the measurement or recognition of those plans required by SFAS No. 87, SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," or SFAS No. 106.

One of the principal assumptions used to calculate net periodic pension cost is the expected long-term rate of return on plan assets. The expected long-term rate of return on plan assets may result in recognized returns that are greater or less than the actual returns on those plan assets in any given year. Over time, however, the expected long-term rate of return on plan assets is designed to approximate the actual long-term returns.

The discount rate assumptions used to account for pension and nonpension postretirement benefit plans reflect the rates available on high-quality, fixed-income debt instruments on December 31 of each year. The rate of compensation increase is another significant assumption used for pension accounting and is determined by the Company based upon annual reviews.

For postretirement health care plan accounting, our Company reviews external data and our own historical trends for health care costs to determine the health care cost trend rate assumptions.

Refer to Note 14.

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Contingencies*

Our Company is involved in various legal proceedings and tax matters. Due to their nature, such legal proceedings and tax matters 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. Refer to Note 11.

### *Business Combinations*

In accordance with SFAS No. 141, "Business Combinations," we account for all business combinations by the purchase method. Furthermore, we recognize intangible assets apart from goodwill if they arise from contractual or legal rights or if they are separable from goodwill.

### *New Accounting Standards*

Effective January 1, 2003, the Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal plan be recognized when the liability is incurred. Under SFAS No. 146, an exit or disposal plan exists when the following criteria are met:

- Management, having the authority to approve the action, commits to a plan of termination.
- The plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date.
- The plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

SFAS No. 146 establishes that fair value is the objective for initial measurement of the liability. In cases where employees are required to render service beyond a minimum retention period until they are terminated in order to receive termination benefits, a liability for termination benefits is recognized ratably over the future service period. Under EITF Issue No. 94-3, a liability for the entire amount of the exit cost was recognized at the date that the entity met the four criteria described above. Refer to Note 17.

Effective January 1, 2003, our Company adopted the recognition and measurement provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 45 ("Interpretation 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in interim and annual financial statements about the obligations under certain guarantees. Interpretation 45 also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

issuing the guarantee. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. We do not currently provide significant guarantees on a routine basis. As a result, this interpretation has not had a material impact on our financial statements.

As previously disclosed, our Company adopted the disclosure requirements of SFAS No. 132 (revised 2003) related to pensions and other postretirement benefits. Refer to Note 14.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) ("Interpretation 46"), "Consolidation of Variable Interest Entities." Application of this interpretation is required in our financial statements for interests in variable interest entities that are considered to be special-purpose entities for the year ended December 31, 2003. Our Company determined that we do not have any arrangements or relationships with special-purpose entities. Application of Interpretation 46 for all other types of variable interest entities is required for our Company effective March 31, 2004.

Interpretation 46 addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary is required to include assets, liabilities and the results of operations of the variable interest entity in its financial statements.

Our Company holds interests in certain entities, primarily bottlers, currently accounted for under the equity method of accounting that may be considered variable interest entities. These variable interests relate to profit guarantees or subordinated financial support for these bottlers. Our Company determined that we will increase assets as of March 31, 2004 by approximately $170 million. We expect that the adoption of Interpretation 46 will not result in a cumulative effect of an accounting change. The results of operations of these variable interest entities will be included in our consolidated results beginning April 1, 2004 and are not expected to have a material impact. Our Company's investment, plus any loans and guarantees, related to these variable interest entities totals approximately $325 million, representing our maximum exposure to loss. Of this amount, $280 million is reflected in our December 31, 2003 consolidated balance sheet because we currently account for a majority of these investments on the equity method of accounting. The remaining $45 million relates to guarantees made to a third party.

The FASB issued FASB Staff Position 106-1 ("FSP 106-1"), "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003," with an effective date for fiscal years ending after December 7, 2003. FSP 106-1 relates to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") signed into law on December 8, 2003. The Act introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare. We do not believe that we would need to amend our postretirement health care plan in order to benefit from the federal subsidy. As permitted by FSP 106-1, our Company made a one-time election to defer accounting for the effect of the Act until specific authoritative guidance is issued. Therefore, in accordance with FSP 106-1, any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost included in our financial statements and accompanying notes do not reflect the effects of the Act on our plans. Specific

## NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require our Company to change previously reported information.

## NOTE 2: BOTTLING INVESTMENTS

***Coca-Cola Enterprises Inc.***

Coca-Cola Enterprises Inc. ("CCE") is the world's largest marketer, distributor and producer of bottle and can nonalcoholic beverages, operating in eight countries. On December 31, 2003, our Company owned approximately 37 percent of the outstanding common stock of CCE. We account for our investment by the equity method of accounting. As of December 31, 2003, our proportionate share of the net assets of CCE exceeded our investment by approximately $358 million. As required by SFAS No. 142, this difference is not amortized.

A summary of financial information for CCE is as follows (in millions):

| December 31, | **2003** | 2002 |
|---|---|---|
| Current assets | **$ 3,000** | $ 2,844 |
| Noncurrent assets | **22,700** | 21,531 |
| Total assets | **$ 25,700** | $ 24,375 |
| Current liabilities | **$ 3,941** | $ 3,455 |
| Noncurrent liabilities | **17,394** | 17,573 |
| Total liabilities | **$ 21,335** | $ 21,028 |
| Share-owners' equity | **$ 4,365** | $ 3,347 |
| Company equity investment | **$ 1,260** | $ 972 |

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| Net operating revenues | **$ 17,330** | $ 16,058[1] | $ 14,999[1] |
| Cost of goods sold | **10,165** | 9,458[1] | 9,015[1] |
| Gross profit | **$ 7,165** | $ 6,600[1] | $ 5,984[1] |
| Operating income | **$ 1,577** | $ 1,364 | $ 601 |
| Cumulative effect of accounting change[2] | **$ —** | $ — | $ (302) |
| Net income (loss) | **$ 676** | $ 494 | $ (321) |
| Net income (loss) available to common share owners | **$ 674** | $ 491 | $ (324) |

[1] These amounts were reclassified to reflect the January 1, 2003 adoption of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor."

[2] Change in CCE's method of accounting for infrastructure payments.

## NOTE 2: BOTTLING INVESTMENTS (Continued)

A summary of our significant transactions with CCE is as follows (in millions):

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Net concentrate and syrup sales to CCE | **$ 4,681** | $ 4,306 | $ 3,852 |
| CCE purchases of sweeteners through our Company | **311** | 325 | 295 |
| Cash payments made by us directly to CCE | **862** | 837 | 606 |
| Cash payments made by us directly to CCE customers | **214** | 204 | 282 |
| Local media and marketing program reimbursements | **221** | 264 | 252 |

Cash payments made by us directly to CCE represent support of certain marketing activities and our participation with them in cooperative advertising and other marketing. Cash payments made by us directly to CCE's customers represent support of certain marketing activities and programs. Pursuant to cooperative advertising and trade agreements with CCE, we received funds from CCE for local media and marketing program expense reimbursements.

In 2002, our Company entered into a multi-year Sales Growth Initiative ("SGI") agreement with CCE to support profitable growth of our brands in its territories. Total cash support paid by our Company under the SGI agreement was $150 million in 2002. This amount is included in the total support of certain marketing activities and our participation with them in cooperative advertising and other marketing programs noted above.

The entire SGI agreement may be terminated by either party by providing six months written notice to the other party; provided, however, that once an annual plan has been agreed upon by both companies, such termination shall not be effective until the end of the applicable plan year. In addition, during the first three quarters of any year, either party may cancel for ensuing quarters the sales volume growth targets and cash support funding provisions of the agreement for that year by providing 10 days' notice prior to the end of such quarter. Upon such quarterly cancellation, all other provisions of the agreement will remain in full force and effect. Volume growth funding is paid to CCE equally over the four quarters of the program year within 30 days after the beginning of each quarter. Our Company recognizes a charge as sales volume growth is attained by CCE. Such amounts are included as allowance deductions in net operating revenues.

The agreement provides for refunds of funding advances should CCE fail to attain specified minimum sales volume growth targets. Accordingly, should CCE not attain specified minimum cumulative sales volume growth targets in the ensuing quarters of a given year, amounts recognized to date for that year would be subject to refund.

In 2002, our Company agreed with CCE to modify the terms of the SGI agreement relating to 2003 and beyond. Under the amended agreement, funding for 2003, anticipated to be $250 million under the original agreement, was revised to $200 million. The 2003 amount paid to CCE was $161 million. This $39 million difference was due to a shortfall of 39 million unit cases below the sales volume growth target for 2003. The new amendment requires an additional $275 million in funding to CCE over the next eight years (2004–2011) and significantly reduces the annual reductions in funding that were a part of the original agreement. In addition, the amendment provides for each company to retain all cost savings it generates from future system efficiency initiatives. The previous agreement called for an equal sharing between our Company and CCE of combined proceeds above set targets.

Our Company previously entered into programs with CCE designed to help it develop cold-drink infrastructure. Under these programs, our Company paid CCE for a portion of the cost of developing the

**NOTE 2: BOTTLING INVESTMENTS (Continued)**

infrastructure necessary to support accelerated placements of cold-drink equipment. These payments support a common objective of increased sales of Coca-Cola beverages from increased availability and consumption in the cold-drink channel. In connection with these programs, CCE agrees to:

(1) purchase and place specified numbers of venders/coolers or cold-drink equipment each year through 2008;

(2) maintain the equipment in service, with certain exceptions, for a period of at least 12 years after placement;

(3) maintain and stock the equipment in accordance with specified standards; and

(4) report to our Company minimum average annual unit case sales volume throughout the economic life of the equipment.

CCE must achieve minimum average unit case sales volume for a 12-year period following the placement of equipment. These minimum average unit case sales volume levels ensure adequate gross profit from sales of concentrate to fully recover the capitalized costs plus a return on the Company's investment. Should CCE fail to purchase the specified numbers of venders/coolers or cold-drink equipment for any calendar year through 2008, the parties agree to mutually develop a reasonable solution. Should no mutually agreeable solution be developed, or in the event that CCE otherwise breaches any material obligation under the contracts and such breach is not remedied within a stated period, then CCE would be required to repay a portion of the support funding as determined by our Company. No repayments by CCE have ever been made under these programs. Our Company paid or committed to pay $3 million in 2002 and $159 million in 2001 to CCE in connection with these infrastructure programs. These payments are recorded in prepaid expenses and other assets and in noncurrent other assets and amortized as deductions in net operating revenues over the 10-year period following the placement of the equipment. Our carrying values for these infrastructure programs with CCE were approximately $829 million as of December 31, 2003 and $879 million as of December 31, 2002. Effective 2002 and thereafter, the Company has no further commitments under these programs.

As of January 1, 2001, CCE changed its method of accounting for infrastructure development payments received from the Company. Prior to this change, CCE recognized these payments as offsets to incremental expenses of the programs in the periods in which they were incurred. CCE now recognizes the infrastructure development payments received from the Company as income when obligations under the contracts are performed. Because the Company eliminates the financial effect of significant intercompany transactions (including transactions with equity method investees), this change in accounting method had no impact on the financial statements of our Company.

In March 2003, our Company acquired a 100 percent ownership interest in Truesdale Packaging Company LLC ("Truesdale") from CCE. Refer to Note 18.

If valued at the December 31, 2003 quoted closing price of CCE shares, the fair value of our investment in CCE exceeded our carrying value by approximately $2.4 billion.

## NOTE 2: BOTTLING INVESTMENTS (Continued)

***Other Equity Investments***

Operating results include our proportionate share of income (loss) from our equity investments. A summary of financial information for our equity investments in the aggregate, other than CCE, is as follows (in millions):

| December 31, | **2003** | 2002 |
|---|---|---|
| Current assets | **$ 6,416** | $ 5,649 |
| Noncurrent assets | **17,394** | 14,453 |
| Total assets | **$ 23,810** | $ 20,102 |
| Current liabilities | **$ 5,467** | $ 4,816 |
| Noncurrent liabilities | **9,011** | 6,010 |
| Total liabilities | **$ 14,478** | $ 10,826 |
| Share-owners' equity | **$ 9,332** | $ 9,276 |
| Company equity investment | **$ 3,964** | $ 3,765 |

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| Net operating revenues | **$ 19,797** | $ 17,714[1] | $ 19,740[1] |
| Cost of goods sold | **11,661** | 10,112[1] | 11,337[1] |
| Gross profit | **$ 8,136** | $ 7,602[1] | $ 8,403[1] |
| Operating income | **$ 1,666** | $ 1,744 | $ 1,770 |
| Cumulative effect of accounting change[2] | **$ —** | $ (1,428) | $ — |
| Net income (loss) | **$ 580** | $ (630) | $ 735 |

Equity investments include nonbottling investees.

[1] These amounts were reclassified to reflect the January 1, 2003 adoption of EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor."

[2] Accounting change is the adoption of SFAS No. 142.

Net sales to equity investees other than CCE, the majority of which are located outside the United States, were $4.0 billion in 2003, $3.2 billion in 2002 and $3.7 billion in 2001. Total support payments, primarily marketing, made to equity investees other than CCE were approximately $511 million, $488 million and $636 million for 2003, 2002 and 2001, respectively.

Effective May 6, 2003, one of our Company's equity method investees, Coca-Cola FEMSA, S.A. de C.V. ("Coca-Cola FEMSA") consummated a merger with another of the Company's equity method investees, Panamerican Beverages, Inc. ("Panamco"). Our Company received new Coca-Cola FEMSA shares in exchange for all 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.

**NOTE 2: BOTTLING INVESTMENTS (Continued)**

In connection with the merger, Coca-Cola FEMSA management initiated steps to streamline and integrate 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 our proportionate share of these matters. This charge is included in the line item equity income—net.

In December 2003, the Company issued a stand-by line of credit to Coca-Cola FEMSA. Refer to Note 11.

The Company and the major share owner of Coca-Cola FEMSA have an understanding that will permit this share owner to purchase from our Company an amount of Coca-Cola FEMSA shares sufficient for this share owner to regain a 51 percent ownership interest in Coca-Cola FEMSA. Pursuant to this understanding, which is in place until May 2006, this share owner would pay the higher of the prevailing market price per share at the time of the sale or the sum of approximately $2.22 per share plus the Company's carrying costs. Both amounts are in excess of our Company's carrying value.

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.

Effective October 1, 2003, the Company and all of its bottling partners in Japan 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, thus reducing our net operating revenues and cost of goods sold. The formation of this entity included the sale of Company inventory and 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.

In November 2003, Coca-Cola Hellenic Bottling Company S.A. ("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, and we recorded a reduction to our investment in CCHBC.

Effective February 2002, our Company acquired control of Coca-Cola Erfrischungsgetraenke AG ("CCEAG"), the largest bottler of our Company's beverage products in Germany. Prior to acquiring control, our Company accounted for CCEAG under the equity method of accounting. Refer to Note 18.

In the first quarter of 2002, our Company sold our bottling operations in the Baltics to CCHBC. The proceeds from the sale of the Baltics bottlers were approximately equal to the carrying value of the investment.

In February 2001, the Company reached an agreement with Carlsberg A/S ("Carlsberg") for the dissolution of Coca-Cola Nordic Beverages A/S ("CCNB"), a joint venture bottler in which our Company had a 49 percent ownership interest. In July 2001, our Company and San Miguel Corporation ("San Miguel") acquired Coca-Cola Bottlers Philippines, Inc. ("CCBPI") from Coca-Cola Amatil Limited ("Coca-Cola Amatil"). Refer to Note 18.

## NOTE 2: BOTTLING INVESTMENTS (Continued)

In November 2001, our Company sold nearly all its ownership interests in various Russian bottling operations to CCHBC for approximately $170 million in cash and notes receivable, of which $146 million in notes receivable remained outstanding as of December 31, 2001. Such amount was subsequently collected in 2002. These interests consisted of the Company's 40 percent ownership interest in a joint venture with CCHBC that operates bottling territories in Siberia and parts of western Russia, together with our Company's nearly 100 percent interests in bottling operations with territories covering the remainder of Russia.

If valued at the December 31, 2003 quoted closing prices of shares actively traded on stock markets, the value of our equity investments in publicly traded bottlers other than CCE exceeded our carrying value by approximately $1.6 billion.

## NOTE 3: ISSUANCES OF STOCK BY EQUITY INVESTEES

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 CCE common stock issued was valued in an amount greater than the book value per share of our investment in CCE. The shares issued, combined with other share issuances, exceeded the amount of repurchased shares under CCE's share repurchase plan. As a result, the issuance of these shares resulted in a noncash pretax gain for our Company of approximately $91 million. We provided deferred taxes of approximately $36 million on this gain. This transaction reduced our ownership interest in CCE from approximately 40 percent to approximately 38 percent.

No gains or losses on issuances of stock by equity investees were recorded during 2002.

## NOTE 4: GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS

In accordance with SFAS No. 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed annually for impairment. Our Company is the owner of some of the world's most valuable trademarks. As a result, certain trademarks and franchise rights to bottle and distribute such trademarked products are expected to generate positive cash flows for as long as the Company owns such trademarks and franchise rights for a particular territory. Given the Company's more than 100-year history, certain trademarks and the franchise rights to bottle and distribute products under our trademarks have been assigned indefinite lives. Intangible assets that are deemed to have definite lives are amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company began applying the new accounting rules effective January 1, 2002.

## NOTE 4: GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS (Continued)

The adoption of SFAS No. 142 required the Company to perform an initial impairment assessment of all goodwill and indefinite-lived intangible assets as of January 1, 2002. The Company compared the fair value of trademarks and other intangible assets to the current carrying value. Fair values were derived using discounted cash flow analyses. The assumptions used in these discounted cash flow analyses were consistent with our internal planning. Valuations were completed for intangible assets for both the Company and our equity method investees. For the Company's intangible assets, the cumulative effect of this change in accounting principle in 2002 was an after-tax decrease to net income of approximately $367 million. For the Company's proportionate share of its equity method investees, the cumulative effect of this change in accounting principle in 2002 was an after-tax decrease to net income of approximately $559 million. The deferred income tax benefit related to the cumulative effect of this change for the Company's intangible assets in 2002 was approximately $94 million and for the Company's proportionate share of its equity method investees was approximately $123 million.

The impairment charges resulting in the after-tax decrease to net income for the cumulative effect of this change by applicable operating segment as of January 1, 2002 were as follows (in millions):

| | |
|---|---|
| The Company: | |
| Asia | $ 108 |
| Europe, Eurasia & Middle East | 33 |
| Latin America | 226 |
| Total | $ 367 |
| The Company's proportionate share of its equity method investees: | |
| Africa | $ 63 |
| Europe, Eurasia & Middle East | 400 |
| Latin America | 96 |
| Total | $ 559 |

Of the $108 million impairment recorded as of January 1, 2002 for the Company in Asia, $99 million related to bottlers' franchise rights in our consolidated bottlers in our Southeast and West Asia Division. Difficult economic conditions impacted our business in Singapore, Sri Lanka, Nepal and Vietnam. As a result, bottlers in these countries experienced lower than expected volume and operating margins.

Of the Company's $226 million impairment recorded as of January 1, 2002 for Latin America, approximately $113 million related to Company-owned Brazilian bottlers' franchise rights. The Brazilian macroeconomic conditions, the devaluation of the currency and lower pricing impacted the valuation of these bottlers' franchise rights. The remainder of the $226 million primarily related to a $109 million impairment for certain trademarks in Latin America. In early 1999, our Company formed a strategic partnership to market and distribute such trademarked brands. The macroeconomic conditions and lower pricing depressed operating margins for these trademarks.

For Europe, Eurasia and Middle East equity method investees, a $400 million impairment was recorded as of January 1, 2002 for the Company's proportionate share related to bottlers' franchise rights. Of this amount, approximately $301 million related to CCEAG. This impairment was due to a prolonged difficult economic environment in Germany, resulting in continuing losses for CCEAG in eastern Germany. At that time, the market for nonalcoholic beverages was undergoing a transformation. A changing competitive landscape, continuing price pressure and growing demand for new products and packaging were elements impacting

## NOTE 4: GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS (Continued)

CCEAG. The $400 million impairment also included a $50 million charge for Middle East bottlers' franchise rights. In our Africa operating segment, a $63 million charge was recorded for the Company's proportionate share of impairments related to equity method investee bottlers' franchise rights. These Middle East and Africa bottlers had challenges as a result of political instability and the resulting economic instability in their respective regions, which adversely impacted financial performance.

A $96 million impairment was recorded as of January 1, 2002 for the Company's proportionate share related to bottlers' franchise rights of Latin America equity method investees. In southern Latin America, the macroeconomic conditions and devaluation of the Argentine peso significantly impacted the valuation of bottlers' franchise rights.

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.

As discussed in Note 18, in 2002 the Company acquired certain intangible assets in connection with the business combinations of CCEAG, Cosmos Bottling Company ("CBC") and CCDA Waters L.L.C. ("CCDA"). Because such assets were assigned indefinite lives, no amortization was recorded.

The following table sets forth the information for intangible assets subject to amortization and for intangible assets not subject to amortization (in millions):

| December 31, | **2003** | 2002 |
|---|---|---|
| Amortized intangible assets (various, principally trademarks): | | |
| Gross carrying amount | **$ 263** | $ 201 |
| Accumulated amortization | **$ 98** | $ 80 |
| Unamortized intangible assets: | | |
| Trademarks | **$ 1,979** | $ 1,724 |
| Goodwill[1] | **1,029** | 876 |
| Bottlers' franchise rights | **658** | 580 |
| Other | **158** | 157 |
| | **$ 3,824** | $ 3,337 |

[1] During 2003, the increase in goodwill primarily resulted from translation adjustments.

| Year Ended December 31, | **2003** | 2002 |
|---|---|---|
| Aggregate amortization expense | **$ 23** | $ 11 |
| Estimated amortization expense (in millions): | | |
| For the year ending: | | |
| December 31, 2004 | $ 20 | |
| December 31, 2005 | $ 18 | |
| December 31, 2006 | $ 16 | |
| December 31, 2007 | $ 15 | |
| December 31, 2008 | $ 14 | |

## NOTE 4: GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS (Continued)

The following table summarizes and reconciles net income before cumulative effect of accounting change for the three years ended December 31, 2003, 2002 and 2001, adjusted to exclude amortization expense recognized in such periods related to trademarks, bottlers' franchise rights, goodwill, other indefinite-lived intangible assets that are no longer amortized and our proportionate share of equity method investees' intangibles (in millions, except per share amounts):

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| Reported net income before cumulative effect of accounting change | **$ 4,347** | $ 3,976 | $ 3,979 |
| Add back after-tax amounts: | | | |
| Trademarks amortization | **—** | — | 30 |
| Bottlers' franchise rights amortization | **—** | — | 7 |
| Goodwill amortization | **—** | — | 3 |
| Other indefinite-lived intangible amortization | **—** | — | 4 |
| Equity method investees' intangibles amortization | **—** | — | 110 |
| Adjusted net income before cumulative effect of accounting change | **$ 4,347** | $ 3,976 | $ 4,133 |
| Basic and diluted net income per share before accounting change: | | | |
| Reported net income | **$ 1.77** | $ 1.60 | $ 1.60 |
| Trademarks amortization | **—** | — | .01 |
| Bottlers' franchise rights amortization | **—** | — | — |
| Goodwill amortization | **—** | — | — |
| Other indefinite-lived intangible amortization | **—** | — | — |
| Equity method investees' intangibles amortization | **—** | — | .05 |
| Adjusted basic and diluted net income per share before accounting change | **$ 1.77** | $ 1.60 | $ 1.66 |

## NOTE 5: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following (in millions):

| December 31, | **2003** | 2002 |
|---|---|---|
| Trade accounts payable and other accrued expenses | **$ 2,014** | $ 1,975 |
| Accrued marketing | **1,046** | 1,046 |
| Accrued compensation | **311** | 284 |
| Container deposits | **256** | 178 |
| Sales, payroll and other taxes | **225** | 182 |
| Accrued streamlining costs (refer to Note 17) | **206** | 27 |
| | **$ 4,058** | $ 3,692 |

## NOTE 6: SHORT-TERM BORROWINGS AND CREDIT ARRANGEMENTS

Loans and notes payable consist primarily of commercial paper issued in the United States. At December 31, 2003 and 2002, we had approximately $2,234 million and $2,122 million, respectively, outstanding

## NOTE 6: SHORT-TERM BORROWINGS AND CREDIT ARRANGEMENTS (Continued)

in commercial paper borrowings. Our weighted-average interest rates for commercial paper outstanding were approximately 1.1 percent and 1.4 percent per annum at December 31, 2003 and 2002, respectively. In addition, we had $1,576 million in lines of credit and other short-term credit facilities available as of December 31, 2003, of which approximately $246 million was outstanding. This entire $246 million amount related to our international operations. Our Company also has short-term notes payable of $103 million related to acquisitions of businesses. Included in the available credit facilities discussed above, the Company had $1,150 million in lines of credit for general corporate purposes, including commercial paper back-up. There were no borrowings during 2003.

These credit facilities are subject to normal banking terms and conditions. Some of the financial arrangements require compensating balances, none of which is presently significant to our Company.

## NOTE 7: LONG-TERM DEBT

Long-term debt consists of the following (in millions):

| December 31, | **2003** | 2002 |
|---|---|---|
| 6% U.S. dollar notes due 2003 | **$ —** | $ 150 |
| Variable rate euro notes due 2004[1] | **296** | 248 |
| 5⅞% euro notes due 2005 | **591** | 496 |
| 4% U.S. dollar notes due 2005 | **749** | 748 |
| 5¾% U.S. dollar notes due 2009 | **399** | 399 |
| 5¾% U.S. dollar notes due 2011 | **498** | 498 |
| 7⅜% U.S. dollar notes due 2093 | **116** | 116 |
| Other, due through 2013[2] | **191** | 226 |
| | **2,840** | 2,881 |
| Less current portion | **323** | 180 |
| | **$ 2,517** | $ 2,701 |

[1] 2.4% at December 31, 2003.

[2] Includes $27 million fair value adjustment related to interest rate swap agreements (refer to Note 10).

The above notes include various restrictions, none of which is presently significant to our Company.

After giving effect to interest rate management instruments, the principal amount of our long-term debt that had fixed and variable interest rates, respectively, was $1,742 million and $1,098 million on December 31, 2003, and $1,764 million and $1,117 million on December 31, 2002. The weighted-average interest rate on our Company's long-term debt was 3.9 percent and 4.2 percent per annum for the years ended December 31, 2003 and 2002, respectively. Total interest paid was approximately $180 million, $197 million and $304 million in 2003, 2002 and 2001, respectively. For a more complete discussion of interest rate management, refer to Note 10.

Maturities of long-term debt for the five years succeeding December 31, 2003 are as follows (in millions):

| 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| $ 323 | $ 1,385 | $ 19 | $ 9 | $ 2 |

## NOTE 8: COMPREHENSIVE INCOME

Accumulated other comprehensive income ("AOCI"), including our proportionate share of equity method investees' AOCI, consists of the following (in millions):

| December 31, | **2003** | 2002 |
|---|---|---|
| Foreign currency translation adjustment | **$ (1,856)** | $ (2,777) |
| Accumulated derivative net losses | **(77)** | (44) |
| Unrealized gain on available-for-sale securities | **52** | 12 |
| Minimum pension liability | **(114)** | (238) |
| | **$ (1,995)** | $ (3,047) |

A summary of the components of other comprehensive income, including our proportionate share of equity method investees' other comprehensive income, for the years ended December 31, 2003, 2002 and 2001 is as follows (in millions):

| | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| **2003** | | | |
| Net foreign currency translation | **$ 913** | **$ 8** | **$ 921** |
| Net loss on derivatives | **(63)** | **30** | **(33)** |
| Net change in unrealized gain on available-for-sale securities | **65** | **(25)** | **40** |
| Net change in minimum pension liability | **181** | **(57)** | **124** |
| Other comprehensive income (loss) | **$ 1,096** | **$ (44)** | **$ 1,052** |

| | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| 2002 | | | |
| Net foreign currency translation | $ (51) | $ (44) | $ (95) |
| Net loss on derivatives | (284) | 98 | (186) |
| Net change in unrealized gain on available-for-sale securities | 104 | (37) | 67 |
| Net change in minimum pension liability | (299) | 104 | (195) |
| Other comprehensive income (loss) | $ (530) | $ 121 | $ (409) |

| | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| 2001 | | | |
| Net foreign currency translation | $ (285) | $ 78 | $ (207) |
| Cumulative effect of adopting SFAS No. 133, net | 83 | (33) | 50 |
| Net gain on derivatives | 151 | (59) | 92 |
| Net change in unrealized loss on available-for-sale securities | (39) | 10 | (29) |
| Net change in minimum pension liability | (27) | 10 | (17) |
| Other comprehensive income (loss) | $ (117) | $ 6 | $ (111) |

## NOTE 9: FINANCIAL INSTRUMENTS

***Fair Value of Financial Instruments***

The carrying amounts reflected in our balance sheets for cash, cash equivalents, marketable equity securities, cost method investments, receivables, loans and notes payable, and long-term debt approximate their respective fair values. Fair values are based primarily on quoted prices for those or similar instruments. Fair values for our derivative financial instruments are included in Note 10.

***Credit Risk***

With respect to our cash and cash equivalents balances, we manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties and procedures to monitor concentration of credit risk. Based on these factors, we consider the risk of counterparty default to be minimal.

***Certain Debt and Marketable Equity Securities***

Investments in debt and marketable equity securities, other than investments accounted for by the equity method, are required to be categorized as either trading, available-for-sale or held-to-maturity. On December 31, 2003 and 2002, we had no trading securities. Securities categorized as available-for-sale are stated at fair value, with unrealized gains and losses, net of deferred income taxes, reported as a component of AOCI. Debt securities categorized as held-to-maturity are stated at amortized cost.

On December 31, 2003 and 2002, available-for-sale and held-to-maturity securities consisted of the following (in millions):

| | | Gross Unrealized | | |
|---|---|---|---|---|
| December 31, | Cost | Gains | Losses | Estimated Fair Value |
| **2003** | | | | |
| Available-for-sale securities: | | | | |
| Bank and corporate debt | **$ 118** | **$ —** | **$ —** | **$ 118** |
| Equity securities | **143** | **97** | **(8)** | **232** |
| Other debt securities | **76** | **—** | **—** | **76** |
| | **$ 337** | **$ 97** | **$ (8)** | **$ 426** |
| Held-to-maturity securities: | | | | |
| Bank and corporate debt | **$ 2,162** | **$ —** | **$ —** | **$ 2,162** |
| Other debt securities | **1** | **—** | **—** | **1** |
| | **$ 2,163** | **$ —** | **$ —** | **$ 2,163** |

## NOTE 9: FINANCIAL INSTRUMENTS (Continued)

| December 31, | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| 2002 | | | | |
| Available-for-sale securities: | | | | |
| Bank and corporate debt | $ 133 | $ — | $ — | $ 133 |
| Equity securities | 112 | 25 | (2) | 135 |
| Collateralized mortgage obligations | 5 | — | — | 5 |
| Other debt securities | 57 | — | — | 57 |
| | $ 307 | $ 25 | $ (2) | $ 330 |
| Held-to-maturity securities: | | | | |
| Bank and corporate debt | $ 1,083 | $ — | $ — | $ 1,083 |
| Other debt securities | 1 | — | — | 1 |
| | $ 1,084 | $ — | $ — | $ 1,084 |

On December 31, 2003 and 2002, these investments were included in the following captions (in millions):

| December 31, | Available-for-Sale Securities | Held-to-Maturity Securities |
|---|---|---|
| **2003** | | |
| Cash and cash equivalents | **$ 118** | **$ 2,162** |
| Current marketable securities | **120** | **—** |
| Cost method investments, principally bottling companies | **185** | **—** |
| Other assets | **3** | **1** |
| | **$ 426** | **$ 2,163** |

| December 31, | Available-for-Sale Securities | Held-to-Maturity Securities |
|---|---|---|
| 2002 | | |
| Cash and cash equivalents | $ 133 | $ 1,081 |
| Current marketable securities | 83 | 2 |
| Cost method investments, principally bottling companies | 104 | — |
| Other assets | 10 | 1 |
| | $ 330 | $ 1,084 |

## NOTE 9: FINANCIAL INSTRUMENTS (Continued)

The contractual maturities of these investments as of December 31, 2003 were as follows (in millions):

| | Available-for-Sale Securities | | Held-to-Maturity Securities | |
|---|---|---|---|---|
| | Cost | Fair Value | Amortized Cost | Fair Value |
| 2004 | $ 190 | $ 190 | $ 2,162 | $ 2,162 |
| 2005–2008 | — | — | 1 | 1 |
| After 2008 | 4 | 4 | — | — |
| Equity securities | 143 | 232 | — | — |
| | $ 337 | $ 426 | $ 2,163 | $ 2,163 |

For the years ended December 31, 2003, 2002 and 2001, gross realized gains and losses on sales of available-for-sale securities were not material. The cost of securities sold is based on the specific identification method.

## NOTE 10: HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS

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, in commodity prices and other market risks. When entered into, the Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. The Company formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings. Virtually all of our derivatives are straightforward over-the-counter instruments with liquid markets. Our Company does not enter into derivative financial instruments for trading purposes.

The fair values of derivatives used to hedge or modify our risks fluctuate over time. We do not view these fair value amounts in isolation, but rather in relation to the fair values or cash flows of the underlying hedged transactions or other exposures. The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of our exposure to the financial risks described above. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates, exchange rates or other financial indices.

On January 1, 2001, the Company adopted SFAS No. 133, as amended by SFAS No. 137 and SFAS No. 138. SFAS No. 133 was further amended by SFAS No. 149. SFAS No. 149, which did not have a material impact effect on our financial statements, became effective beginning July 1, 2003. These statements require the Company to recognize all derivative instruments as either assets or liabilities in our balance sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. At the inception of the hedging relationship, the Company must designate the derivative instrument as a fair value

**NOTE 10: HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. This designation is based upon the exposure being hedged.

The adoption of SFAS No. 133 resulted in the Company recording transition adjustments to recognize its derivative instruments at fair value and to recognize the ineffective portion of the change in fair value of its derivatives. The cumulative effect of these transition adjustments was an after-tax reduction to net income of approximately $10 million and an after-tax net increase to AOCI of approximately $50 million. The reduction to net income was primarily related to the change in the time value and fair value of foreign currency options and interest rate swap agreements, respectively. The increase in AOCI was primarily related to net gains on foreign currency cash flow hedges. The Company reclassified into earnings during the year ended December 31, 2001 approximately $54 million of net gains relating to the transition adjustment recorded in AOCI as of January 1, 2001.

We have established strict counterparty credit guidelines and enter into transactions only with financial institutions of investment grade or better. We monitor counterparty exposures daily and review any downgrade in credit rating immediately. If a downgrade in the credit rating of a counterparty were to occur, we have provisions requiring collateral in the form of U.S. government securities for substantially all of our transactions. To mitigate presettlement risk, minimum credit standards become more stringent as the duration of the derivative financial instrument increases. To minimize the concentration of credit risk, we enter into derivative transactions with a portfolio of financial institutions. The Company has master netting agreements with most of the financial institutions that are counterparties to the derivative instruments. These agreements allow for the net settlement of assets and liabilities arising from different transactions with the same counterparty. Based on these factors, we consider the risk of counterparty default to be minimal.

***Interest Rate Management***

Our Company monitors 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. We also enter into interest rate swap agreements to manage these risks. These contracts had maturities of less than two years on December 31, 2003. Interest rate swap agreements that meet certain conditions required under SFAS No. 133 for fair value hedges are accounted for as such with the offset recorded to adjust the fair value of the underlying exposure being hedged. Any ineffective portion (which was not significant in 2003, 2002 or 2001) of the changes in the fair value of these agreements is recorded in earnings immediately. The fair values of our Company's interest rate swap agreements were approximately $28 million and $44 million at December 31, 2003 and 2002, respectively. The Company estimates the fair value of its interest rate management derivatives based on quoted market prices.

***Foreign Currency Management***

The purpose of our foreign currency hedging activities is to reduce the risk that our eventual U.S. dollar net cash inflows resulting from sales outside the United States will be adversely affected by changes in exchange rates.

We enter into forward exchange contracts and purchase currency options (principally euro and Japanese yen) and collars to hedge certain portions of forecasted cash flows denominated in foreign currencies. The effective portion of the changes in fair value for these contracts, which have been designated as cash flow hedges, are reported in AOCI and reclassified into earnings in the same financial statement line item and in the

**NOTE 10: HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

same period or periods during which the hedged transaction affects earnings. Any ineffective portion (which was not significant in 2003, 2002 or 2001) of the change in fair value of these instruments is immediately recognized in earnings. These contracts had maturities up to one year on December 31, 2003, which is also the period in which primarily all amounts included in AOCI will be reclassified into earnings.

Additionally, the Company enters into forward exchange contracts that are not designated as hedging instruments under SFAS No. 133. These instruments are used to offset the earnings impact relating to the variability in exchange rates on certain monetary assets and liabilities denominated in nonfunctional currencies. Changes in the fair value of these instruments are immediately recognized in earnings in the line item other income (loss)—net of our statements of income to offset the effect of remeasurement of the monetary assets and liabilities.

The Company also enters into forward exchange contracts to hedge its net investment position in certain major currencies. Under SFAS No. 133, changes in the fair value of these instruments are recognized in foreign currency translation adjustment, a component of AOCI, to offset the change in the value of the net investment being hedged. For the years ended December 31, 2003, 2002 and 2001, approximately $29 million, $26 million and $43 million, respectively, of losses relating to derivative financial instruments were recorded in foreign currency translation adjustment.

For the years ended December 31, 2003, 2002 and 2001, we recorded an increase (decrease) to AOCI of approximately $(31) million, $(151) million and $92 million, respectively, net of both income taxes and reclassifications to earnings, primarily related to gains and losses on foreign currency cash flow hedges. These items will generally offset cash flow gains and losses relating to the underlying exposures being hedged in future periods. The Company estimates that it will reclassify into earnings during the next 12 months losses of approximately $40 million from the net amount recorded in AOCI as of December 31, 2003 as the anticipated foreign currency cash flows occur. For the year ended December 31, 2001, the Company recorded approximately $12 million in earnings, classified within net operating revenues in our statements of income, primarily related to the change in the time value of foreign currency options. During 2001, the FASB issued an interpretation to SFAS No. 133 allowing the entire change in fair value, including the time value, of certain purchased options to be recorded in AOCI until the related underlying exposure is recorded in earnings. The Company adopted this interpretation prospectively.

The Company did not discontinue any cash flow hedge relationships during the years ended December 31, 2003, 2002 and 2001.

**NOTE 10: HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

The following table summarizes activity in AOCI related to derivatives designated as cash flow hedges held by the Company during the applicable periods (in millions):

| Year Ended December 31, | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| **2003** | | | |
| Accumulated derivative net losses as of January 1, 2003 | **$ (15)** | **$ 6** | **$ (9)** |
| Net changes in fair value of derivatives | **(165)** | **65** | **(100)** |
| Net losses reclassified from AOCI into earnings | **114** | **(45)** | **69** |
| Accumulated derivative net losses as of December 31, 2003 | **$ (66)** | **$ 26** | **$ (40)** |

| Year Ended December 31, | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| 2002 | | | |
| Accumulated derivative net gains as of January 1, 2002 | $ 234 | $ (92) | $ 142 |
| Net changes in fair value of derivatives | (129) | 51 | (78) |
| Net gains reclassified from AOCI into earnings | (120) | 47 | (73) |
| Accumulated derivative net losses as of December 31, 2002 | $ (15) | $ 6 | $ (9) |

| Year Ended December 31, | Before-Tax Amount | Income Tax | After-Tax Amount |
|---|---|---|---|
| 2001 | | | |
| Cumulative effect of adopting SFAS No. 133, net | $ 83 | $ (33) | $ 50 |
| Net changes in fair value of derivatives | 311 | (122) | 189 |
| Net gains reclassified from AOCI into earnings | (160) | 63 | (97) |
| Accumulated derivative net gains as of December 31, 2001 | $ 234 | $ (92) | $ 142 |

## NOTE 10: HEDGING TRANSACTIONS AND DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The following table presents the fair values, carrying values and maturities of the Company's foreign currency derivative instruments outstanding (in millions):

| December 31, | Carrying Values Assets (Liabilities) | Fair Values | Maturity |
|---|---|---|---|
| **2003** | | | |
| Forward contracts | **$ (25)** | **$ (25)** | **2004** |
| Options and collars | **3** | **3** | **2004** |
| | **$ (22)** | **$ (22)** | |

| December 31, | Carrying Values Assets (Liabilities) | Fair Values | Maturity |
|---|---|---|---|
| 2002 | | | |
| Forward contracts | $ (10) | $ (10) | 2003 |
| Options and collars | 60 | 60 | 2003–2004 |
| | $ 50 | $ 50 | |

The Company estimates the fair value of its foreign currency derivatives based on quoted market prices or pricing models using current market rates. This amount is primarily reflected in prepaid expenses and other assets within our balance sheets.

## NOTE 11: COMMITMENTS AND CONTINGENCIES

On December 31, 2003, we were contingently liable for guarantees of indebtedness owed by third parties in the amount of $280 million. These guarantees are related to third-party customers, bottlers and vendors and have arisen through the normal course of business. These guarantees have various terms, and none of these guarantees is individually significant. The amount represents the maximum potential future payments that we could be required to make under the guarantees; however, we do not consider it probable that we will be required to satisfy these guarantees.

Additionally in December 2003, we granted a $250 million stand-by line of credit to Coca-Cola FEMSA with normal market terms.

We believe our exposure to concentrations of credit risk is limited due to the diverse geographic areas covered by our operations.

We have committed to make future marketing and other expenditures of approximately $3,144 million, of which the majority is payable over the next 12 years. This amount includes our long-term agreements with the National Collegiate Athletic Association and CBS, and with the Houston Astros Baseball Club, for a combined value of approximately $600 million to $750 million.

The Company is also involved in various legal proceedings and tax matters. Management believes that any liability to the Company that may arise as a result of currently pending legal proceedings and tax matters, including those discussed below, will not have a material adverse effect on the financial condition of the Company taken as a whole.

**NOTE 11: COMMITMENTS AND CONTINGENCIES (Continued)**

In 2003, the Securities and Exchange Commission began conducting an investigation into whether the Company or certain persons associated with our Company violated federal securities laws in connection with the conduct alleged by a former employee of the Company. Additionally, in 2003 the United States Attorney's Office for the Northern District of Georgia commenced a criminal investigation of the allegations raised by the same former employee. These investigations are ongoing, and to the Company's knowledge no criminal prosecutions or civil enforcement actions have been filed. While the Company cannot predict whether any such actions will be filed in the future, the Company will continue to cooperate fully with the governmental investigations.

During the period from 1970 to 1981, our Company owned Aqua-Chem, Inc. ("Aqua-Chem"). A division of Aqua-Chem manufactured certain boilers that contained gaskets that Aqua-Chem purchased from outside suppliers. Several years after our Company sold this entity, Aqua-Chem received its first lawsuit relating to asbestos, a component of some of the gaskets. Aqua-Chem has notified our Company that it believes we are obligated to them for certain costs and expenses associated with the litigation. Aqua-Chem has demanded that our Company reimburse it for approximately $10 million for out-of-pocket litigation-related expenses incurred over the last 18 years. Aqua-Chem has also demanded that the Company acknowledge a continuing obligation to Aqua-Chem for any future liabilities and expenses that are excluded from coverage under the applicable insurance or for which there is no insurance. Our Company disputes Aqua-Chem's claims, and we believe we have no obligation to Aqua-Chem for any of its past, present or future liabilities, costs or expenses. Furthermore, we believe we have substantial legal and factual defenses to Aqua-Chem's claims. The parties entered into litigation to resolve this dispute, which is currently pending. The Company believes Aqua-Chem has substantial insurance coverage to pay Aqua-Chem's asbestos claimants. An estimate of possible losses, if any, cannot be made at this time.

The Competition Directorate of the European Commission made unannounced visits to the offices of the Company and certain of our bottlers in Austria, Belgium, Denmark, Germany and Great Britain several years ago. This investigation, which is directed at various commercial and market practices, is continuing and the Company and bottlers are endeavoring to have a dialogue with the Commission in order to address their concerns. The Commission may, following its usual practice, issue one or more statements of objection, after which the Company and the bottlers would have formal rights to reply and to judicial appeal in the event of an adverse decision by the Commission. The Commission has authority to impose fines in connection with an adverse decision, however, the Company is not able to predict whether fines would be imposed or the amount of such fines.

The Spanish competition service made unannounced visits to our own offices and those of certain bottlers in Spain in 2000. In December 2003, the Spanish competition service suspended its investigation until the European Commission notifies the service of how the European Commission will proceed in its aforementioned investigation.

The French competition directorate has also initiated an inquiry into commercial practices related to the soft drinks sector in France. This inquiry has been conducted through visits to the offices of the Company; however, no conclusions have been communicated to the Company by the directorate.

At the time of divesting our interest in a consolidated entity, we sometimes agree to indemnify the buyer for specific liabilities related to the period we owned the entity. Management believes that any liability to the Company that may arise as a result of any such indemnification agreements will not have a material adverse effect on the financial condition of the Company taken as a whole.

## NOTE 12: NET CHANGE IN OPERATING ASSETS AND LIABILITIES

Net cash provided by operating activities attributable to the net change in operating assets and liabilities is composed of the following (in millions):

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Decrease (increase) in trade accounts receivable | **$ 80** | $ (83) | $ (73) |
| Decrease (increase) in inventories | **111** | (49) | (17) |
| Decrease (increase) in prepaid expenses and other assets | **(276)** | 74 | (349) |
| Decrease in accounts payable and accrued expenses | **(164)** | (442) | (179) |
| Increase in accrued taxes | **53** | 20 | 247 |
| Increase (decrease) in other liabilities | **28** | 73 | (91) |
| | **$ (168)** | $ (407) | $ (462) |

## NOTE 13: RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS

Prior to 2002, our Company accounted for our stock option plans and restricted stock plans under the recognition and measurement provisions of APB No. 25 and related interpretations. Effective January 1, 2002, our Company adopted the preferable fair value recognition provisions of SFAS No. 123. Our Company selected the modified prospective method of adoption described in SFAS No. 148. Compensation cost recognized in 2002 was the same as that which would have been recognized had the fair value method of SFAS No. 123 been applied from its original effective date. Refer to Note 1.

In accordance with the provisions of SFAS No. 123 and SFAS No. 148, $422 million and $365 million, respectively, were recorded for total stock-based compensation expense in 2003 and 2002. 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 (refer to Note 17). In accordance with APB No. 25, total stock-based compensation expense was $41 million for the year ended December 31, 2001.

### *Stock Option Plans*

Under our 1991 Stock Option Plan (the "1991 Option Plan"), a maximum of 120 million shares of our common stock was approved to be issued or transferred to certain officers and employees pursuant to stock options and stock appreciation rights granted under the 1991 Option Plan. The stock appreciation rights permit the holder, upon surrendering all or part of the related stock option, to receive cash, common stock or a combination thereof, in an amount up to 100 percent of the difference between the market price and the option price. Options to purchase common stock under the 1991 Option Plan have been granted to Company employees at fair market value at the date of grant.

The 1999 Stock Option Plan (the "1999 Option Plan") was approved by share owners in April of 1999. Following the approval of the 1999 Option Plan, no grants were made from the 1991 Option Plan, and shares available under the 1991 Option Plan were no longer available to be granted. Under the 1999 Option Plan, a maximum of 120 million shares of our common stock was approved to be issued or transferred to certain officers and employees pursuant to stock options granted under the 1999 Option Plan. Options to purchase common stock under the 1999 Option Plan have been granted to Company employees at fair market value at the date of grant.

The 2002 Stock Option Plan (the "2002 Option Plan") was approved by share owners in April of 2002. Under the 2002 Option Plan, a maximum of 120 million shares of our common stock was approved to be issued or transferred to certain officers and employees pursuant to stock options granted under the 2002 Option Plan.

**NOTE 13: RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS (Continued)**

Options to purchase common stock under the 2002 Option Plan have been granted to Company employees at fair market value at the date of grant.

Stock options granted in December 2003 generally become exercisable over a four-year graded vesting period and expire 10 years from the date of grant. Stock option grants from 1999 through July 2003 generally become exercisable over a four-year graded vesting period and expire 15 years from the date of grant. Prior to 1999, stock options generally became exercisable over a three-year vesting period and expired 10 years from the date of grant.

To ensure the best market-based assumptions were used to determine the estimated fair value of stock options granted in 2003 and 2002, we obtained two independent market quotes. Our Black-Scholes value was not materially different from the independent quotes.

The following table sets forth information about the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model and the weighted-average assumptions used for such grants:

| | **2003** | 2002 | 2001 |
|---|---|---|---|
| Weighted-average fair value of options granted | **$ 13.49** | $ 13.10 | $ 15.09 |
| Dividend yields | **1.9%** | 1.7% | 1.6% |
| Expected volatility | **28.1%** | 30.2% | 31.9% |
| Risk-free interest rates | **3.5%** | 3.4% | 5.1% |
| Expected lives | **6 years** | 6 years | 5 years |

A summary of stock option activity under all plans is as follows (shares in millions):

| | **2003** | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding on January 1, | **159** | **$ 50.24** | 141 | $ 51.16 | 112 | $ 51.23 |
| Granted[1] | **24** | **49.67** | 29 | 44.69 | 45 | 48.11 |
| Exercised | **(4)** | **26.96** | (3) | 31.09 | (7) | 24.30 |
| Forfeited/Expired[2] | **(12)** | **51.45** | (8) | 54.21 | (9) | 56.74 |
| Outstanding on December 31, | **167** | **$ 50.56** | 159 | $ 50.24 | 141 | $ 51.16 |
| Exercisable on December 31, | **102** | **$ 51.97** | 80 | $ 51.72 | 65 | $ 50.83 |
| Shares available on December 31, for options that may be granted | **108** | | 122 | | 25 | |

[1] No grants were made from the 1991 Option Plan during 2003, 2002 or 2001.

[2] Shares forfeited/expired relate to the 1991, 1999 and 2002 Option Plans.

## NOTE 13: RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS (Continued)

The following table summarizes information about stock options at December 31, 2003 (shares in millions):

| | Outstanding Stock Options | | | Exercisable Stock Options | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| $ 20.00 to $ 30.00 | 2 | 0.8 years | $ 25.31 | 2 | $ 25.31 |
| $ 30.01 to $ 40.00 | 8 | 1.8 years | $ 35.63 | 8 | $ 35.63 |
| $ 40.01 to $ 50.00 | 95 | 11.5 years | $ 47.62 | 35 | $ 47.61 |
| $ 50.01 to $ 60.00 | 51 | 10.1 years | $ 56.29 | 46 | $ 56.15 |
| $ 60.01 to $ 86.75 | 11 | 4.8 years | $ 65.86 | 11 | $ 65.86 |
| $ 20.00 to $ 86.75 | 167 | 10.1 years | $ 50.56 | 102 | $ 51.97 |

### *Restricted Stock Award Plans*

Under the amended 1989 Restricted Stock Award Plan and the amended 1983 Restricted Stock Award Plan (the "Restricted Stock Award Plans"), 40 million and 24 million shares of restricted common stock, respectively, may be granted to certain officers and key employees of our Company.

On December 31, 2003, 29 million shares were available for grant under the Restricted Stock Award Plans. Participants are entitled to vote and receive dividends on the shares and, under the 1983 Restricted Stock Award Plan, participants are reimbursed by our Company for income taxes imposed on the award, but not for taxes generated by the reimbursement payment. The shares are subject to certain transfer restrictions and may be forfeited if a participant leaves our Company for reasons other than retirement, disability or death, absent a change in control of our Company.

The following table summarizes information about restricted stock grants and cancellations in which the restrictions lapse upon the achievement of continued employment over a specified period of time.

| Year | | Number of shares | Average Fair Value |
|---|---|---|---|
| **2003** | Grants | **52,720** | **$ 42.91** |
| | Cancellations | **27,000** | **$ 44.61** |
| 2002 | Grants | 30,000 | $ 50.99 |
| | Cancellations | 2,500 | $ 67.50 |
| 2001 | Grants | 116,300 | $ 48.95 |
| | Cancellations | 78,700 | $ 48.49 |

In 2003, the Company established a program to provide Performance Share Unit Awards under the 1989 Restricted Stock Award Plan to executives. Awards for the 2004–2006 performance period were made in December 2003 at a fair value of $46.78 per share. The performance measure for these awards is compound annual growth in earnings per share, as adjusted for certain items approved by the Board of Directors ("adjusted EPS"). The number of performance share units earned shall be determined at the end of the three-year performance period and will result in an award at that time of restricted stock under the 1989 Restricted Stock Award Plan. Restrictions on such stock lapse on the fifth anniversary of the original award date. The target award made in December 2003 was 798,931 shares and requires 11 percent adjusted EPS growth over the performance period. The maximum award is 1,198,397 shares, if adjusted EPS growth is 13 percent or more, and

**NOTE 13: RESTRICTED STOCK, STOCK OPTIONS AND OTHER STOCK PLANS (Continued)**

the minimum award is 399,466 shares if adjusted EPS is at 8 percent. Below 8 percent adjusted EPS growth, there is no award of restricted shares at the end of the period.

In 2003, 200,000 shares of five-year performance-based restricted stock were cancelled at an average fair value of $46.88 per share.

In 2002, 50,000 shares of four-year performance-based restricted stock were granted at an average fair value of $46.88 per share. The release of the shares is subject to the Company's achievement of a minimum of 11 percent annual growth in earnings per share over the four-year measurement period, as adjusted for certain items approved by the Board of Directors. In 2002, the Company also promised to grant 50,000 shares at the end of three years and 75,000 shares at the end of four years if the Company achieved predefined performance targets over the respective measurement periods.

In 2000, 270,000 shares of three-year performance-based and 2,025,000 shares of five-year performance-based restricted stock were granted. The release of these shares was contingent upon the Company achieving certain predefined performance targets over the three-year and five-year measurement periods, respectively. Participants were entitled to vote and receive dividends on these shares during the measurement period. The Company also promised to grant 180,000 shares of stock at the end of three years and 200,000 shares at the end of five years to certain employees if the Company achieved predefined performance targets over the respective measurement periods.

In May 2001, all performance-based restricted stock awards and promises made to grant shares in the future were cancelled, with the exception of 150,000 shares of five-year performance-based restricted stock. New awards for the same number of cancelled shares, with the exception of the promises made in 2000 to grant 200,000 shares at the end of five years, were granted at an average fair value of $47.88 per share. The release of the shares is subject to the Company's achievement of a minimum of 11 percent annual growth in earnings per share over the respective measurement periods, as adjusted for certain items approved by the Board of Directors. In 2001, an additional 10,000 shares of three-year performance-based restricted stock and 50,000 shares of five-year performance-based restricted stock were granted at an average fair value of $46.22 per share and $45.70 per share, respectively, with predefined performance targets to be achieved over the respective measurement periods. In 2001, an additional 250,000 shares of five-year performance-based restricted stock were granted at an average fair value of $46.80 per share.

In all cases where the measurement period ended in 2003, the performance conditions for the three-year performance-based restricted stock grants and the promises to grant stock at the end of the three-year period were not achieved.

**NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

Our Company sponsors and/or contributes to pension and postretirement health care and life insurance benefit plans covering substantially all U.S. employees. We also sponsor nonqualified, unfunded defined benefit pension plans for certain members of management. In addition, our Company and its subsidiaries have various pension plans and other forms of postretirement arrangements outside the United States.

Total expense for all benefit plans, including defined benefit pension plans, defined contribution pension plans, and postretirement health care and life insurance benefits plans, amounted to $243 million in 2003, $168 million in 2002 and $142 million in 2001. In addition, in 2003 the Company recorded a charge of $23 million for special retirement benefits and curtailment costs as part of the streamlining costs discussed in Note 17.

## NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

Our Company uses a measurement date of December 31 for substantially all of our pension and postretirement benefit plans.

### *Obligations and Funded Status*

The following table sets forth the change in benefit obligations for our benefit plans (in millions):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| December 31, | **2003** | 2002 | **2003** | 2002 |
| Benefit obligation at beginning of year[1] | **$ 2,182** | $ 1,906 | **$ 651** | $ 530 |
| Service cost | **76** | 63 | **25** | 18 |
| Interest cost | **140** | 132 | **44** | 38 |
| Foreign currency exchange rate changes | **90** | 11 | **1** | — |
| Amendments | **(2)** | 6 | **(25)** | — |
| Actuarial loss | **142** | 138 | **86** | 86 |
| Benefits paid[2] | **(122)** | (121) | **(22)** | (23) |
| Business combinations | **—** | 46 | **—** | — |
| Curtailments | **(23)** | — | **(6)** | — |
| Special termination benefits | **12** | — | **5** | — |
| Other | **—** | 1 | **2** | 2 |
| Benefit obligation at end of year[1] | **$ 2,495** | $ 2,182 | **$ 761** | $ 651 |

[1] For pension benefit plans, the benefit obligation is the projected benefit obligation. For other benefit plans, the benefit obligation is the accumulated postretirement benefit obligation.

[2] Benefits paid from pension benefit plans during 2003 and 2002 included $27 million and $26 million, respectively, in payments related to unfunded pension plans that were paid from Company assets. All of the benefits paid from other benefit plans during 2003 and 2002 were paid from Company assets because these plans are unfunded.

The accumulated benefit obligation for our pension plans was $2,145 million and $1,893 million at December 31, 2003 and 2002, respectively.

The total projected benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets were $941 million and $311 million, respectively, as of December 31, 2003 and $2,016 million and $1,262 million, respectively, as of December 31, 2002. The total accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $770 million and $274 million, respectively, as of December 31, 2003 and $1,733 million and $1,243 million, respectively, as of December 31, 2002.

## NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

The following table sets forth the change in the fair value of plan assets for our benefit plans (in millions):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| December 31, | **2003** | 2002 | **2003** | 2002 |
| Fair value of plan assets at beginning of year[1] | **$ 1,452** | $ 1,492 | **$ —** | $ — |
| Actual return on plan assets | **405** | (121) | **—** | — |
| Employer contributions | **208** | 151 | **—** | — |
| Foreign currency exchange rate changes | **54** | 23 | **—** | — |
| Benefits paid | **(95)** | (95) | **—** | — |
| Other | **—** | 2 | **—** | — |
| Fair value of plan assets at end of year[1] | **$ 2,024** | $ 1,452 | **$ —** | $ — |

[1] Plan assets include 1.62 million shares of common stock of our Company with a fair value of $82 million and $71 million as of December 31, 2003 and 2002, respectively. Dividends received on common stock of our Company during 2003 and 2002 were $1.4 million and $1.3 million, respectively.

The pension and other benefit amounts recognized in our balance sheets are as follows (in millions):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| December 31, | **2003** | 2002 | **2003** | 2002 |
| Funded status—plan assets less than benefit obligations | **$ (471)** | $ (730) | **$ (761)** | $ (651) |
| Unrecognized net actuarial loss | **429** | 584 | **203** | 130 |
| Unrecognized prior service cost | **55** | 66 | **(7)** | 19 |
| Unrecognized net asset at transition | **—** | (1) | **—** | — |
| Net prepaid asset (liability) recognized | **$ 13** | $ (81) | **$ (565)** | $ (502) |
| Prepaid benefit cost | **$ 407** | $ 271 | **$ —** | $ — |
| Accrued benefit liability | **(519)** | (747) | **(565)** | (502) |
| Intangible asset | **16** | 60 | **—** | — |
| Accumulated other comprehensive income | **109** | 335 | **—** | — |
| Net prepaid asset (liability) recognized | **$ 13** | $ (81) | **$ (565)** | $ (502) |

### *Components of Net Periodic Benefit Cost*

Net periodic benefit cost for our pension and other postretirement benefit plans consists of the following (in millions):

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| Year Ended December 31, | **2003** | 2002 | 2001 | **2003** | 2002 | 2001 |
| Service cost | **$ 76** | $ 63 | $ 53 | **$ 25** | $ 18 | $ 13 |
| Interest cost | **140** | 132 | 123 | **44** | 38 | 34 |
| Expected return on plan assets | **(130)** | (137) | (125) | **—** | — | (1) |
| Amortization of prior service cost | **7** | 6 | 8 | **—** | 2 | 2 |
| Recognized net actuarial loss | **27** | 8 | 3 | **6** | — | — |
| Net periodic benefit cost | **$ 120** | $ 72 | $ 62 | **$ 75** | $ 58 | $ 48 |

## NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

### *Assumptions*

The weighted-average assumptions used in computing the benefit obligations are as follows:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| December 31, | **2003** | 2002 | **2003** | 2002 |
| Discount rate | **6%** | 6¼% | **6¼%** | 6¾% |
| Rate of increase in compensation levels | **4¼%** | 4¼% | **4½%** | 4½% |

The weighted-average assumptions used in computing net periodic benefit cost are as follows:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| Year Ended December 31, | **2003** | 2002 | 2001 | **2003** | 2002 | 2001 |
| Discount rate[1] | **6%** | 6½% | 7% | **6½%** | 7¼% | 7½% |
| Rate of increase in compensation levels | **4¼%** | 4¼% | 4½% | **4½%** | 4½% | 4½% |
| Expected long-term rate of return on plan assets | **7¾%** | 8¼% | 8½% | **—** | — | — |

[1] On March 27, 2003, the primary qualified and nonqualified U.S. pension plans, as well as the U.S. postretirement health care plan, were remeasured to reflect the effect of the curtailment resulting from the Company streamlining initiatives. Refer to Note 17. The discount rate assumption used to determine 2003 net periodic benefit cost for these U.S. plans was 6¾ percent prior to the remeasurement and 6½ percent subsequent to the remeasurement. This change in the discount rate is reflected in the 2003 weighted-average discount rate of 6 percent for all pension benefit plans and 6½ percent for other benefit plans.

The assumed health care cost trend rates are as follows:

| December 31, | **2003** | 2002 |
|---|---|---|
| Health care cost trend rate assumed for next year | **10%** | 10% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | **5¼%** | 5¼% |
| Year that the rate reaches the ultimate trend rate | **2009** | 2008 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one percentage point change in the assumed health care cost trend rate would have the following effects (in millions):

| | One Percentage Point Increase | One Percentage Point Decrease |
|---|---|---|
| Effect on accumulated postretirement benefit obligation as of December 31, 2003 | $ 96 | $ (81) |
| Effect on total of service cost and interest cost in 2003 | $ 13 | $ (11) |

Refer to Note 1 for information regarding the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

## NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

### *Plan Assets*

The fair value of plan assets for our U.S. pension benefit plans as of December 31, 2003 was $1,467 million. The following table sets forth the actual asset allocation and target asset allocation for our U.S. plan assets:

| December 31, | **2003** | 2002 | Target Asset Allocation |
|---|---|---|---|
| Equity securities[1] | **66%** | 55% | 60% |
| Debt securities[2] | **27%** | 36% | 30% |
| Real estate and other[3] | **7%** | 9% | 10% |
| Total | **100%** | 100% | 100% |

[1] As of December 31, 2003 and 2002, 5 percent and 7 percent, respectively, of total U.S. plan assets were invested in common stock of our Company. The target asset allocation for large–capitalization, mid–capitalization, and small–capitalization U.S. equity securities is 20 percent, 9 percent and 20 percent, respectively. The target asset allocation for international equity securities is 11 percent.

[2] The target asset allocation for high–yield debt securities is 15 percent.

[3] As of December 31, 2003 and 2002, 5 percent and 7 percent, respectively, of total U.S. plan assets were invested in real estate.

Investment objectives for the Company's U.S. plan assets are to:

(1) optimize the long-term return on plan assets at an acceptable level of risk;

(2) maintain a broad diversification across asset classes and among investment managers;

(3) maintain careful control of the risk level within each asset class; and

(4) focus on a long-term return objective.

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. Selection of the targeted asset allocation for U.S. plan assets was based upon a review of the expected return and risk characteristics of each asset class, as well as the correlation of returns among asset classes.

Investment guidelines are established with each investment manager. These guidelines provide the parameters within which the investment managers agree to operate, including criteria that determine eligible and ineligible securities, diversification requirements and credit quality standards, where applicable. Unless exceptions have been approved, investment managers are prohibited from buying or selling commodities, futures or option contracts, as well as from short selling of securities. Furthermore, investment managers agree to obtain written approval for deviations from stated investment style or guidelines.

As of December 31, 2003, no investment manager was responsible for more than 10 percent of total U.S. plan assets. In addition, diversification requirements for each investment manager prevent a single security or other investment from exceeding 10 percent, at historical cost, of the total U.S. plan assets.

External consultants were engaged to conduct an asset and liability study in order to determine the most appropriate investment strategy and asset mix for our U.S. plan assets. To develop our expected long-term rate of return assumption on U.S. plan assets, our Company uses long-term historical return information for the

## NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (Continued)

targeted asset mix identified in the asset and liability study. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets. The expected long-term rate of return assumption used in computing 2003 net periodic pension cost for the U.S. plans was 8.5 percent.

### *Contributions*

We contributed $100 million to the primary qualified U.S. pension plan in January 2004, and we anticipate contributing up to an additional $65 million to this plan later in 2004. We expect to contribute up to $55 million to the U.S. postretirement benefit plan during 2004.

## NOTE 15: INCOME TAXES

Income before income taxes and cumulative effect of accounting change consists of the following (in millions):

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| United States | **$ 2,029** | $ 2,062 | $ 2,430 |
| International | **3,466** | 3,437 | 3,240 |
| | **$ 5,495** | $ 5,499 | $ 5,670 |

Income tax expense (benefit) consists of the following (in millions):

| Year Ended December 31, | United States | State & Local | International | Total |
|---|---|---|---|---|
| **2003** | | | | |
| Current | **$ 426** | **$ 84** | **$ 826** | **$ 1,336** |
| Deferred | **(145)** | **(11)** | **(32)** | **(188)** |
| 2002 | | | | |
| Current | $ 455 | $ 55 | $ 973 | $ 1,483 |
| Deferred | 2 | 23 | 15 | 40 |
| 2001 | | | | |
| Current | $ 552 | $ 102 | $ 981 | $ 1,635 |
| Deferred | 70 | (15) | 1 | 56 |

We made income tax payments of approximately $1,325 million, $1,508 million and $1,496 million in 2003, 2002 and 2001, respectively.

## NOTE 15: INCOME TAXES (Continued)

A reconciliation of the statutory U.S. federal rate and effective rates is as follows:

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| Statutory U.S. federal rate | **35.0 %** | 35.0 % | 35.0 % |
| State income taxes—net of federal benefit | **0.9** | 0.9 | 1.0 |
| Earnings in jurisdictions taxed at rates different from the statutory U.S. federal rate | **(10.6)**[1] | (6.0) | (4.9) |
| Equity income or loss | **(2.4)**[2] | (2.0)[4] | (0.9) |
| Other operating charges | **(1.1)**[3] | — | — |
| Write-down/sale of certain bottling investments | **—** | 0.7 [5] | — |
| Other—net | **(0.9)** | (0.9) | (0.4) |
| Effective rates | **20.9 %** | 27.7 % | 29.8 % |

[1] Includes approximately $50 million or (0.8) percent tax benefit for the release of tax reserves due primarily to the resolution of various tax matters.

[2] Includes the write-down of certain intangible assets held by bottling investments in Latin America. Refer to Note 2.

[3] Includes charges for streamlining initiatives. Refer to Note 17.

[4] Includes charges by equity investees in 2002. Refer to Note 16.

[5] Includes gains on the sale of Cervejarias Kaiser Brazil, Ltda and the write-down of certain bottling investments, primarily in Latin America. Refer to Note 16.

Our effective tax rate reflects the tax benefits from having significant operations outside the United States that are taxed at rates lower than the statutory rate of 35 percent. In 2003, our effective tax rate reflects further benefit from realization of tax benefits on charges related to streamlining initiatives recorded in locations with tax rates higher than our effective tax rate.

In 2003, management concluded that it was more likely than not that tax benefits would not be realized on Coca-Cola FEMSA's write-down of intangible assets in Latin American in connection with its merger with Panamco. Refer to Note 2. In 2002, management concluded that it was more likely than not that tax benefits would not be realized with respect to principally all of the items disclosed in Note 16. Accordingly, valuation allowances were recorded to offset the future tax benefit of these items resulting in an increase in our effective tax rate.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $8.2 billion at December 31, 2003. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. federal and state income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce a portion of the U.S. liability.

## NOTE 15: INCOME TAXES (Continued)

The tax effects of temporary differences and carryforwards that give rise to deferred tax assets and liabilities consist of the following (in millions):

| December 31, | **2003** | 2002 |
|---|---|---|
| Deferred tax assets: | | |
| Property, plant and equipment | **$ 87** | $ 227 |
| Trademarks and other intangible assets | **68** | 97 |
| Equity method investments (including translation adjustment) | **485** | 468 |
| Other liabilities | **242** | 123 |
| Benefit plans | **669** | 541 |
| Net operating/capital loss carryforwards | **711** | 663 |
| Other | **195** | 307 |
| Gross deferred tax assets | **2,457** | 2,426 |
| Valuation allowance | **(630)** | (738) |
| Total deferred tax assets[1] | **$ 1,827** | $ 1,688 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | **$ (737)** | $ (757) |
| Trademarks and other intangible assets | **(247)** | (135) |
| Equity method investments (including translation adjustment) | **(468)** | (465) |
| Other liabilities | **(55)** | (55) |
| Other | **(211)** | (222) |
| Total deferred tax liabilities | **$ (1,718)** | $ (1,634) |
| Net deferred tax assets | **$ 109** | $ 54 |

[1] Deferred tax assets of $446 million and $358 million were included in the line item other assets at December 31, 2003 and 2002, respectively.

On December 31, 2003 and 2002, we had approximately $160 million and $129 million, respectively, of net deferred tax assets located in countries outside the United States.

On December 31, 2003, we had $2,511 million of loss carryforwards available to reduce future taxable income. Loss carryforwards of $791 million must be utilized within the next five years; $673 million must be utilized within the next 10 years; and the remainder can be utilized over an indefinite period.

## NOTE 16: SIGNIFICANT OPERATING AND NONOPERATING ITEMS

In the first quarter of 2003, the Company reached a settlement with certain defendants in a vitamin antitrust litigation matter. In that litigation, the Company alleged that certain vitamin manufacturers participated in a global conspiracy to fix the price of some vitamins, including vitamins used in the manufacture of some of the Company's products. During the first quarter of 2003, the Company received a settlement relating to this litigation of approximately $52 million on a pretax basis, or $0.01 per share on an after-tax basis. The amount was recorded as a reduction to cost of goods sold.

Refer to Note 2 for disclosure regarding the merger of Coca-Cola FEMSA and Panamco in 2003 and the recording of a $102 million noncash pretax charge to the line item equity income—net.

## NOTE 16: SIGNIFICANT OPERATING AND NONOPERATING ITEMS (Continued)

In the third quarter of 2002, our Company recorded a noncash pretax charge of approximately $33 million related to our share of impairment and restructuring charges taken by certain investees in Latin America. This charge was recorded in the line item equity income—net.

Our Company had direct and indirect ownership interests totaling approximately 18 percent in Cervejarias Kaiser S.A. ("Kaiser S.A."). In March 2002, Kaiser S.A. sold its investment in Cervejarias Kaiser Brazil, Ltda to Molson Inc. ("Molson") for cash of approximately $485 million and shares of Molson valued at approximately $150 million. Our Company's pretax share of the gain related to this sale was approximately $43 million, of which approximately $21 million was recorded in the line item equity income—net, and approximately $22 million was recorded in the line item other income (loss)—net.

In the first quarter of 2002, our Company recorded a noncash pretax charge of approximately $157 million (recorded in the line item other income (loss)—net), primarily related to the write-down of certain investments in Latin America. This write-down reduced the carrying value of the investments in Latin America to fair value. The charge was primarily the result of the economic developments in Argentina during the first quarter of 2002, including the devaluation of the Argentine peso and the severity of the unfavorable economic outlook.

## NOTE 17: STREAMLINING COSTS

During 2003, the Company took steps to streamline and simplify its operations, primarily in North America and Germany. In North America, the Company integrated the operations of three formerly 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. As disclosed in Note 1, under SFAS No. 146, a liability is accrued only when certain criteria are met. All of the Company's streamlining initiatives met these criteria as of December 31, 2003, and all related costs have been incurred as of December 31, 2003.

Employees separated from the Company as a result of these streamlining initiatives were offered severance or early retirement packages, as appropriate, which included both financial and nonfinancial components. The expenses recorded during the year ended December 31, 2003 included costs associated with involuntary terminations and other direct costs associated with implementing these initiatives. As of December 31, 2003, approximately 3,700 associates had been separated pursuant to these streamlining initiatives. Other direct costs included the relocation of employees; contract termination costs; costs associated with the development, communication and administration of these initiatives; and asset write-offs. During 2003, the Company incurred total pretax expenses related to these streamlining initiatives of approximately $561 million, or $0.15 per share after tax. These expenses were recorded in the line item other operating charges.

## NOTE 17: STREAMLINING COSTS (Continued)

The table below summarizes the costs incurred to date, the balance of accrued streamlining expenses and the movement in that accrual as of and for the year ended December 31, 2003 (in millions):

| Cost Summary | Costs Incurred in 2003 | Payments | Noncash and Exchange | Accrued Balance December 31, 2003 |
|---|---|---|---|---|
| Severance pay and benefits | $ 248 | $ (113) | $ 3 | $ 138 |
| Retirement related benefits | 43 | — | (14) | 29 |
| Outside services—legal, outplacement, consulting | 36 | (25) | — | 11 |
| Other direct costs | 133 | (81) | (1) | 51 |
| Total | $ 460 | $ (219) | $ (12) | $ 229[1] |
| Asset impairments | $ 101 | | | |
| Total costs incurred | $ 561 | | | |

[1] As of December 31, 2003, $206 million was included in the balance sheet line item accounts payable and accrued expenses, and $23 million was included in the balance sheet line item other liabilities.

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 |

## NOTE 18: ACQUISITIONS AND INVESTMENTS

During 2003, our Company's acquisition and investment activity totaled approximately $359 million. These acquisitions included purchases of trademarks, brands and related contractual rights of approximately $142 million, none of which was individually significant. Refer to Note 4. Other acquisition and investing activity totaled approximately $217 million, and with the exception of the acquisition of Truesdale, none was individually significant. In March 2003, our Company acquired a 100 percent ownership interest in Truesdale from CCE for cash consideration of approximately $58 million. Truesdale owns a noncarbonated beverage production facility. The purchase price was allocated primarily to the property, plant and equipment acquired. No amount was allocated to intangible assets. Truesdale is included in our North America operating segment.

During 2002, our Company's acquisition and investment activity totaled approximately $1,144 million. Included in this $1,144 million, our Company paid $544 million in cash and recorded a $600 million note payable to finance the CCEAG acquisition described below.

In November 2001, we entered into the Control and Profit and Loss Transfer Agreement ("CPL") with CCEAG. Under the terms of the CPL, our Company acquired management control of CCEAG. In

**NOTE 18: ACQUISITIONS AND INVESTMENTS (Continued)**

November 2001, we also entered into a Pooling Agreement with certain share owners of CCEAG that provided our Company with voting control of CCEAG. Both agreements became effective in February 2002, when our Company acquired control of CCEAG for a term ending no later than December 31, 2006. CCEAG is included in our Europe, Eurasia and Middle East operating segment. As a result of acquiring control of CCEAG, our Company is working to help focus its sales and marketing programs and assist in developing the business. This transaction was accounted for as a business combination, and the results of CCEAG's operations have been included in the Company's financial statements since February 2002. Prior to February 2002, our Company accounted for CCEAG under the equity method of accounting. As of December 31, 2002, our Company had an approximate 41 percent ownership interest in the outstanding shares of CCEAG. In return for control of CCEAG, pursuant to the CPL we guaranteed annual payments, in lieu of dividends by CCEAG, to all other CCEAG share owners. These guaranteed annual payments equal .76 euro for each CCEAG share outstanding. 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. In 2003, one of the other share owners exercised its put option that represented approximately 29 percent of the outstanding shares of CCEAG. All payments related to the exercise of the put options will be made in 2006. 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 approximately 3 percent.

As of the date of the transaction, the Company concluded that the exercise of the put and/or call agreements was a virtual certainty based on the minimal differences in the strike prices. We concluded that either the holder of the put option would require the Company to purchase the shares at the agreed-upon put strike price, or the Company would exercise its call option and require the share owner to tender its shares at the agreed-upon call strike price. If these puts or calls are exercised, the actual transfer of shares would not occur until the end of the term of the CPL. Coupled with the guaranteed payments in lieu of dividends for the term of the CPL, these instruments represented the financing vehicle for the transaction. As such, the Company determined that the economic substance of the transaction resulted in the acquisition of the remaining outstanding shares of CCEAG and required the Company to account for the transaction as a business combination. Furthermore, the terms of the CPL transferred control and all of the economic risks and rewards of CCEAG to the Company immediately.

The present value of the total amount likely to be paid by our Company to all other CCEAG share owners, including the put or put/call payments and the guaranteed annual payments in lieu of dividends, was approximately $905 million at December 31, 2003. This amount increased from the initial liability of approximately $600 million due to the accretion of the discounted value to the ultimate maturity of the liability, as well as approximately $239 million of translation adjustment related to this liability. This liability is included in the line item other liabilities. The accretion of the discounted value to its ultimate maturity value is recorded in the line item other income (loss)—net, and this amount was approximately $51 million and $38 million, respectively, for the years ended December 31, 2003 and 2002.

In July 2002, our Company and Danone Waters of North America, Inc. ("DWNA") formed a new limited liability company, CCDA, for the production, marketing and distribution of DWNA's bottled spring and source water business in the United States. In forming CCDA, DWNA contributed assets of its retail bottled spring and source water business in the United States. These assets include five production facilities, a license for the use of the Dannon and Sparkletts brands, as well as ownership of several value brands. Our Company made a cash payment to acquire a controlling 51 percent equity interest in CCDA and is also providing marketing, distribution and management expertise. This transaction was accounted for as a business combination, and the

**NOTE 18: ACQUISITIONS AND INVESTMENTS (Continued)**

consolidated results of CCDA's operations have been included in the Company's financial statements since July 2002. This business combination expanded our water brands to include a national offering in all sectors of the water category with purified, spring and source waters. CCDA is included in our North America operating segment.

In January 2002, our Company and CCBPI finalized the purchase of RFM Corp.'s ("RFM") approximate 83 percent interest in CBC, a publicly traded Philippine beverage company. CBC is an established carbonated soft-drink business in the Philippines and was included in our Asia operating segment. The original sale and purchase agreement with RFM was entered into in November 2001. As of the date of this sale and purchase agreement, the Company began supplying concentrate for this operation. The purchase of RFM's interest was finalized on January 3, 2002. In March 2002, a tender offer was completed with our Company and CCBPI acquiring all shares of the remaining minority share owners except for shares representing a 1 percent interest in CBC. This transaction was accounted for as a business combination, and the results of CBC's operations were included in the Company's financial statements from January 2002 to March 2003.

The Company and CCBPI agreed to restructure the ownership of the operations of CBC, and this transaction was completed in April 2003. This transaction resulted in the Company acquiring all the trademarks of CBC and CCBPI owning approximately 99 percent of the outstanding shares of CBC. Accordingly, CBC was deconsolidated by the Company. No gain or loss was recorded by our Company upon completion of the transaction, as the fair value of the assets exchanged was approximately equal. Additionally, there was no impact on our cash flows related to this transaction.

Our Company acquired controlling interests in CCDA and CBC for total combined consideration of approximately $328 million. As of December 31, 2003, the Company allocated approximately $56 million of the purchase price for these acquisitions to goodwill and $208 million to other indefinite-lived intangible assets, primarily trademarks, brands and licenses. This goodwill is all related to the CCDA acquisition and is allocated to our North America operating segment.

The combined 2002 net operating revenues of CCEAG, CBC and CCDA were approximately $1.3 billion.

During 2001, our Company's acquisition and investment activity totaled approximately $651 million. In February 2001, our Company reached an agreement with Carlsberg for the dissolution of CCNB, a joint venture bottler in which our Company had a 49 percent ownership interest. At that time, CCNB had bottling operations in Sweden, Norway, Denmark, Finland and Iceland. Under this agreement with Carlsberg, our Company acquired CCNB's Sweden and Norway bottling operations in June 2001, increasing our Company's ownership in those bottlers to 100 percent. Carlsberg acquired CCNB's Denmark and Finland bottling operations, increasing Carlsberg's ownership in those bottlers to 100 percent. Pursuant to the agreement, CCNB sold its Iceland bottling operations to a third-party group of investors in May 2001.

In March 2001, our Company signed a definitive agreement with La Tondena Distillers, Inc. ("La Tondena") and San Miguel to acquire carbonated soft-drink, water and juice brands for $84 million. CCBPI acquired the related manufacturing and distribution assets from La Tondena for $63 million.

In July 2001, our Company and San Miguel acquired CCBPI from Coca-Cola Amatil. Upon the completion of this transaction, our Company owned 35 percent of the common shares and 100 percent of the Preferred B shares, and San Miguel owned 65 percent of the common shares of CCBPI. Additionally, as a result of this transaction, our Company's interest in Coca-Cola Amatil was reduced from approximately 38 percent to approximately 35 percent.

## NOTE 18: ACQUISITIONS AND INVESTMENTS (Continued)

In December 2001, our Company completed a cash tender offer for all outstanding shares of the common stock of Odwalla, Inc. This acquisition was valued at approximately $190 million with our Company receiving an ownership interest of 100 percent.

During the first half of 2001, in separate transactions, our Company purchased two bottlers in Brazil: Refrescos Guararapes Ltda. and Sucovalle Sucos e Concentrados do Vale S.A.

The acquisitions and investments have been accounted for by either the purchase method or equity method of accounting, as appropriate. Their results have been included in our financial statements from their respective dates of acquisition using the appropriate method of accounting. Assuming the results of these businesses had been included in operations commencing with 2001, pro forma financial data would not be required due to immateriality.

## NOTE 19: OPERATING SEGMENTS

Our Company's operating structure includes the following operating segments: North America; Africa; Asia; Europe, Eurasia and Middle East; Latin America; and Corporate. North America includes the United States, Canada and Puerto Rico. Prior-period amounts have been reclassified to conform to the current-period presentation.

### *Segment Products and Services*

The business of our Company is nonalcoholic beverages. Our operating segments derive a majority of their revenues from the manufacture and sale of beverage concentrates and syrups and, in some cases, the sale of finished beverages. The following table summarizes the contribution to net operating revenues from Company operations (in millions):

| Year Ended December 31, | **2003** | 2002 | 2001 |
|---|---|---|---|
| Company operations, excluding bottling operations | **$ 18,236** | $ 17,163 | $ 16,409 |
| Company-owned bottling operations | **2,808** | 2,401 | 1,136 |
| Consolidated net operating revenues | **$ 21,044** | $ 19,564 | $ 17,545 |

### *Method of Determining Segment Profit or Loss*

Management evaluates the performance of our operating segments separately to individually monitor the different factors affecting financial performance. Segment profit or loss includes substantially all the segment's costs of production, distribution and administration. Our Company typically manages and evaluates equity investments and related income on a segment level. However, we manage certain significant investments, such as our equity interests in CCE, at the Corporate segment. Our Company manages income taxes on a global basis. We manage financial costs, such as exchange gains and losses and interest income and expense, on a global basis at the Corporate segment. Thus, we evaluate segment performance based on profit or loss before income taxes and cumulative effect of accounting change.

## NOTE 19: OPERATING SEGMENTS (Continued)

Information about our Company's operations by operating segment is as follows (in millions):

| | North America | Africa | Asia | Europe, Eurasia & Middle East | Latin America | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| **2003** | | | | | | | |
| Net operating revenues | **$ 6,344** | **$ 827** | **$ 5,052**[1] | **$ 6,556** | **$ 2,042** | **$ 223** | **$ 21,044** |
| Operating income[2,3] | **1,198** | **249** | **1,690** | **1,908** | **970** | **(794)**[4] | **5,221** |
| Interest income | | | | | | **176** | **176** |
| Interest expense | | | | | | **178** | **178** |
| Depreciation and amortization | **305** | **27** | **124** | **230** | **52** | **112** | **850** |
| Equity income (loss)—net | **13** | **13** | **65** | **78** | **(5)**[5] | **242** | **406** |
| Income before income taxes and cumulative effect of accounting change[2,3] | **1,242** | **249** | **1,740** | **1,921** | **975** | **(632)**[4] | **5,495** |
| Identifiable operating assets | **4,953** | **721** | **1,923** | **5,222** | **1,440** | **7,545**[6] | **21,804** |
| Investments[7] | **109** | **156** | **1,345** | **1,229** | **1,348** | **1,351** | **5,538** |
| Capital expenditures | **309** | **13** | **148** | **198** | **35** | **109** | **812** |
| 2002 | | | | | | | |
| Net operating revenues | $ 6,264 | $ 684 | $ 5,054[1] | $ 5,262[8] | $ 2,089 | $ 211 | $ 19,564 |
| Operating income[9] | 1,494 | 224 | 1,820 | 1,612 | 1,033 | (725) | 5,458 |
| Interest income | | | | | | 209 | 209 |
| Interest expense | | | | | | 199 | 199 |
| Depreciation and amortization | 266 | 37 | 133 | 193 | 57 | 120 | 806 |
| Equity income (loss)—net | 15 | (25) | 60 | (18) | 131 | 221 | 384 |
| Income before income taxes and cumulative effect of accounting change[9] | 1,515 | 187 | 1,848 | 1,540 | 1,081 | (672) | 5,499 |
| Identifiable operating assets | 4,999 | 565 | 2,370 | 4,481[8] | 1,205 | 5,795[6] | 19,415 |
| Investments[7] | 142 | 115 | 1,150 | 1,211[8] | 1,352 | 1,021 | 4,991 |
| Capital expenditures | 334 | 18 | 209 | 162 | 37 | 91 | 851 |
| 2001 | | | | | | | |
| Net operating revenues | $ 5,729 | $ 633 | $ 4,861[1] | $ 3,961 | $ 2,181 | $ 180 | $ 17,545 |
| Operating income | 1,480 | 276 | 1,763 | 1,461 | 1,094 | (722) | 5,352 |
| Interest income | | | | | | 325 | 325 |
| Interest expense | | | | | | 289 | 289 |
| Depreciation and amortization | 249 | 43 | 144 | 118 | 90 | 159 | 803 |
| Equity income (loss)—net | 2 | (9) | 68 | (52) | 118 | 25 | 152 |
| Income before income taxes and cumulative effect of accounting change | 1,472 | 262 | 1,808 | 1,413 | 1,279 | (564)[10] | 5,670 |
| Identifiable operating assets | 4,738 | 517 | 2,121 | 2,292 | 1,681 | 5,646[6] | 16,995 |
| Investments[7] | 140 | 184 | 1,053 | 1,626 | 1,572 | 847 | 5,422 |
| Capital expenditures | 339 | 11 | 107 | 105 | 37 | 170 | 769 |

Intercompany transfers between operating segments are not material.

Certain prior-year amounts have been reclassified to conform to the current-year presentation.

[1] Net operating revenues in Japan represented approximately 67 percent of total Asia operating segment net operating revenues in 2003, 69 percent in 2002 and 74 percent in 2001.

[2] Operating income and income before income taxes and cumulative effect of accounting change were reduced by stock-based compensation expense of $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.

[3] Operating income and income before income taxes and cumulative effect of accounting change were reduced by $273 million for North America, $12 million for Africa, $18 million for Asia, $183 million for Europe, Eurasia and Middle East, $8 million for Latin America and $67 million for Corporate as a result of streamlining charges. Refer to Note 17.

[4] Operating income and income before income taxes and cumulative effect of accounting change were increased by $52 million for Corporate as a result of the Company's receipt of a settlement related to a vitamin antitrust litigation matter. Refer to Note 16.

[5] Equity income (loss)—net for Latin America was reduced by $102 million primarily for a charge related to one of our equity method investees. Refer to Note 2.

[6] Principally marketable securities, finance subsidiary receivables, goodwill, trademarks and other intangible assets, and property, plant and equipment.

[7] Principally equity investments in bottling companies.

[8] Net operating revenues, identifiable operating assets and investments for Europe, Eurasia and Middle East were significantly impacted by the acquisition of CCEAG.

[9] Operating income and income before income taxes and cumulative effect of accounting change were 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 to include the impact of adopting the fair value method of accounting for stock-based compensation under SFAS No. 123.

[10] Income before income taxes and cumulative effect of accounting change was increased by $91 million for Corporate due to a noncash gain that was recognized on the issuance of stock by CCE, one of our equity investees.

## NOTE 19: OPERATING SEGMENTS (Continued)

| Compound Growth Rate Ended December 31, 2003 | North America | Africa | Asia | Europe, Eurasia & Middle East | Latin America | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Net operating revenues | | | | | | | |
| 5 years | 4.4 % | 3.7 % | 6.6% | 7.8% | (1.1)% | 4.8% | 5.2% |
| 10 years | 5.4 % | 11.5 % | 7.0% | 4.4% | 2.0 % | 24.0% | 5.3% |
| Operating income | | | | | | | |
| 5 years | (2.9)% | (0.9)% | 4.7% | 3.4% | (1.5)% | * | 1.0% |
| 10 years | 4.1 % | 3.9 % | 5.7% | 5.5% | 4.7 % | * | 5.4% |

* Calculation is not meaningful.

**Report of Independent Auditors**

**Board of Directors and Share Owners**
***The Coca-Cola Company***

We have audited the accompanying consolidated balance sheets of The Coca-Cola Company and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, share-owners' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Coca-Cola Company and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1, 4 and 13 to the Consolidated Financial Statements, in 2002 the Company changed its method of accounting for goodwill and other intangible assets and changed its method of accounting for stock-based compensation. As discussed in Notes 1 and 10 to the Consolidated Financial Statements, in 2001 the Company changed its method of accounting for derivative instruments and hedging activities.

Ernst & Young LLP

Atlanta, Georgia
February 9, 2004

**REPORT OF MANAGEMENT**
***The Coca-Cola Company and Subsidiaries***

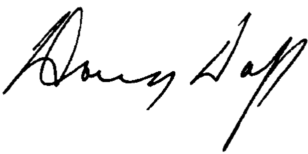
We are responsible for the preparation and integrity of the Consolidated Financial Statements appearing in our Annual Report on Form 10-K. The financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and, accordingly, include certain amounts based on our best judgments and estimates. Financial information in this Annual Report on Form 10-K is consistent with that in the financial statements.

We are responsible for maintaining a system of internal accounting controls and procedures to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. Internal accounting controls include disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed is appropriately recorded, summarized and reported.

The internal accounting control system is augmented by a program of internal audits and appropriate reviews by management, written policies and guidelines, careful selection and training of qualified personnel and a written Code of Business Conduct adopted by our Company's Board of Directors, applicable to all Company Directors and all officers, employees of our Company and our subsidiaries. In our opinion, our Company's internal accounting controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and for maintaining accountability of assets. In addition, in our opinion, our Company's disclosure controls and procedures provide reasonable assurance that appropriate information is accumulated and communicated to senior management to allow timely decisions regarding required disclosures.

The Audit Committee of our Company's Board of Directors, composed solely of Directors who are independent in accordance with the requirements of the New York Stock Exchange listing standards and the Company's Corporate Governance Guidelines, meets with the independent auditors, management and internal auditors periodically to discuss internal accounting controls and auditing and financial reporting matters. The Committee reviews with the independent auditors the scope and results of the audit effort. The Committee also meets periodically with the independent auditors and the chief internal auditor without management present to ensure that the independent auditors and the chief internal auditor have free access to the Committee. Our Audit Committee's Report can be found in the Company's annual proxy statement.

The independent auditors, Ernst & Young LLP, are appointed by the Audit Committee of the Board of Directors, subject to ratification by our Company's share owners. Ernst & Young LLP is engaged to audit the Consolidated Financial Statements of The Coca-Cola Company and subsidiaries and conduct such tests and related procedures as it deems necessary in conformity with generally accepted auditing standards. The opinion of the independent auditors, based upon their audits of the Consolidated Financial Statements, is contained in this Annual Report.

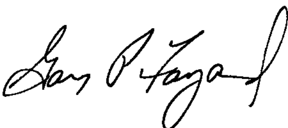


Douglas N. Daft
Chairman, Board of Directors,
and Chief Executive Officer

February 18, 2004

Connie D. McDaniel
Vice President
and Controller

February 18, 2004



Gary P. Fayard
Executive Vice President
and Chief Financial Officer

February 18, 2004

**Quarterly Data (Unaudited)**

| Year Ended December 31, | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|
| (In millions, except per share data) | | | | | |
| **2003** | | | | | |
| Net operating revenues | **$ 4,502** | **$ 5,695** | **$ 5,671** | **$ 5,176** | **$ 21,044** |
| Gross profit | **2,885** | **3,568** | **3,503** | **3,326** | **13,282** |
| Net income | **835** | **1,362** | **1,223** | **927** | **4,347** |
| Basic net income per share | **$ 0.34** | **$ 0.55** | **$ 0.50** | **$ 0.38** | **$ 1.77** |
| Diluted net income per share | **$ 0.34** | **$ 0.55** | **$ 0.50** | **$ 0.38** | **$ 1.77** |
| 2002 | | | | | |
| Net operating revenues | $ 4,079 | $ 5,368 | $ 5,322 | $ 4,795 | $ 19,564 |
| Gross profit | 2,685 | 3,441 | 3,239 | 3,094 | 12,459 |
| Net income before cumulative effect of accounting change | 732 | 1,223 | 1,091 | 930 | 3,976 |
| Net income (loss) | (194) | 1,223 | 1,091 | 930 | 3,050 |
| Basic net income (loss) per share: | | | | | |
| Before accounting change | $ 0.29 | $ 0.49 | $ 0.44 | $ 0.38 | $ 1.60 |
| Cumulative effect of accounting change | (0.37) | — | — | — | (0.37) |
| Total | $ (0.08) | $ 0.49 | $ 0.44 | $ 0.38 | $ 1.23 |
| Diluted net income (loss) per share: | | | | | |
| Before accounting change | $ 0.29 | $ 0.49 | $ 0.44 | $ 0.38 | $ 1.60 |
| Cumulative effect of accounting change | (0.37) | — | — | — | (0.37) |
| Total | $ (0.08) | $ 0.49 | $ 0.44 | $ 0.38 | $ 1.23 |

Certain amounts previously reported in our 2003 Quarterly Reports on Form 10-Q were reclassified to conform to our year-end 2003 presentation.

In the first quarter of 2003, the Company reached a settlement with certain defendants in a vitamin antitrust litigation matter. The Company received a settlement relating to this litigation of approximately $52 million on a pretax basis. Refer to Note 16.

In 2003, the Company took steps to streamline and simplify its operations, primarily in North America and Germany. Selected other operations also took steps to streamline their operations to improve overall efficiency and effectiveness. The pretax expense of these streamlining initiatives for the three months ended March 31, 2003, June 30, 2003, September 30, 2003 and December 31, 2003 was $159 million, $70 million, $43 million and $289 million, respectively. Refer to Note 17.

Effective May 6, 2003, one of our Company's equity method investees, Coca-Cola FEMSA, S.A. de C.V. ("Coca-Cola FEMSA") consummated a merger with another of the Company's equity method investees, Panamerican Beverages, Inc. During the third quarter of 2003, our Company recorded a pretax noncash charge to equity income—net of $95 million primarily related to Coca-Cola FEMSA streamlining initiatives and impairment of certain intangible assets. During the fourth quarter of 2003, our Company recorded a pretax noncash charge of $7 million related solely to the streamlining and integration of these operations. Refer to Note 2.

In the fourth quarter of 2003, we favorably resolved various tax matters (approximately $50 million), partially offset by additional taxes primarily related to the repatriation of funds.

Effective January 1, 2002, our Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." For the Company's intangible assets, the cumulative effect of this change in accounting principle was a decrease to net income after taxes in the first quarter of 2002 of approximately $367 million. For the Company's proportionate share of its equity method investees, the cumulative effect of this change in accounting principle was a decrease to net income after taxes in the first quarter of 2002 of approximately $559 million. Refer to Note 4.

The first quarter of 2002 included a noncash pretax charge of approximately $157 million primarily related to the write-down of our investments in Latin America. Refer to Note 16.

In the first quarter of 2002, Cervejarias Kaiser S.A. sold its investment in Cervejarias Kaiser Brazil, Ltda to Molson Inc. ("Molson") for cash of approximately $485 million and shares of Molson valued at approximately $150 million. Our Company's pretax share of the gain related to this sale was approximately $43 million. Refer to Note 16.

The third quarter of 2002 includes a noncash pretax charge of approximately $33 million related to our proportionate share of impairment and restructuring charges taken by certain investees in Latin America. Refer to Note 16.

## GLOSSARY

As used in this report, the following terms have the meanings indicated.

**Bottling Partner or Bottler:** businesses that buy concentrates, beverage bases or syrups from the Company, convert them into finished packaged products and sell them to customers.

**Carbonated Soft Drink:** nonalcoholic carbonated beverage containing flavorings and sweeteners. Excludes, among others, waters and flavored waters, juices and juice drinks, sports drinks, and teas and coffees.

**The Coca-Cola System:** the Company and its bottling partners.

**Company:** The Coca-Cola Company together with its subsidiaries.

**Concentrate:** material manufactured from Company-defined ingredients and sold to bottlers to prepare finished beverages through the addition of sweeteners and/or water and marketed under trademarks of the Company.

**Consumer:** person who drinks Company products.

**Cost of Capital:** after-tax blended cost of equity and borrowed funds used to invest in operating capital required for business.

**Customer:** retail outlet, restaurant or other operation that sells or serves Company products directly to consumers.

**Derivatives:** contracts or agreements, the value of which may change based on changes in interest rates, exchange rates, prices of securities, or financial or commodity indices. The Company uses derivatives to reduce our exposure to adverse fluctuations in interest and exchange rates and other market risks.

**Dividend Payout Ratio:** cash dividends on common stock divided by net income.

**Fountain:** system used by retail outlets to dispense product into cups or glasses for immediate consumption.

**Gallons:** 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.

**Gross Profit Margin:** gross profit divided by net operating revenues.

**Market:** when used in reference to geographic areas, territory in which the Company and its bottling partners do business, often defined by national boundaries.

**Net Capital:** share-owners' equity added to net debt.

**Net Debt:** debt less the sum of cash, cash equivalents and current marketable securities.

**Noncarbonated Beverages:** nonalcoholic noncarbonated beverages including, but not limited to, waters and flavored waters, juices and juice drinks, sports drinks, and teas and coffees.

**Operating Margin:** operating income divided by net operating revenues.

**Per Capita Consumption:** average number of servings consumed per person, per year in a specific market. Per capita consumption of Company products is calculated by multiplying our unit case volume by 24, and dividing by the population.

**Return on Capital:** income before changes in accounting principles (adding back interest expense, net of related taxes) divided by average total capital.

**Return on Common Equity:** income before changes in accounting principles divided by average common share-owners' equity.

**Serving:** eight U.S. fluid ounces of a finished beverage.

**Syrup:** concentrate mixed with sweetener and water, sold to bottlers and customers who add carbonated water to produce finished carbonated soft drinks.

**Total Capital:** share-owners' equity plus interest-bearing debt.

**Total Market Value of Common Stock:** stock price as of a date multiplied by the number of shares outstanding as of the same date.

**Unit Case:** unit of measurement equal to 192 U.S. fluid ounces of finished beverage (24 servings).

**Unit Case Volume, or Volume:** the number of unit cases (or unit case equivalents) of Company trademark or licensed beverage products directly or indirectly sold by the Coca-Cola system to customers. Volume primarily consists of beverage products bearing Company trademarks. Also included in volume are certain products licensed to our Company or owned by our bottling partners, for which our Company provides marketing support and derives profit from the sales. Such products licensed to our Company or owned by our bottling partners account for a minimal portion of total unit case volume.