

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

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand The Coca-Cola Company, our operations and our present business environment. MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated financial statements and the accompanying notes ("Notes"). This overview summarizes the MD&A, which includes the following sections:

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

Our Business

General

We are the largest manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups in the world. Along with Coca-Cola, which is recognized as the world's most valuable brand, we market four of the world's top five soft-drink brands, including Diet Coke, Fanta and Sprite. We provide a wide variety of nonalcoholic beverages, including carbonated soft drinks, juices and juice drinks, sports drinks, water products, teas, coffees and other beverages to meet consumers' desires, needs and lifestyle choices. Our goal is to use our formidable assets—brands, financial strength, unrivaled distribution system and the strong commitment by our management and employees worldwide—to become more competitive. In so doing, we expect to accelerate growth in a way that creates value for our shareowners and renewed enthusiasm among our employees.

Our Company generates revenues, income and cash flows by manufacturing and selling beverage concentrates and syrups as well as some finished beverages. We generally sell these products to bottling and canning operations, distributors, fountain wholesalers and some fountain retailers. We have three types of bottling relationships: bottlers in which our Company has no ownership interest, bottlers in which our Company has a noncontrolling ownership interest and bottlers in which our Company has a controlling ownership interest. We authorize our bottling partners to manufacture and package products made from our concentrates and syrups into branded finished products that they then distribute and sell. Bottling partners in which our Company

has no ownership interest or a noncontrolling ownership interest produced and distributed approximately 83 percent of our 2004 worldwide unit case volume.

We make significant marketing expenditures in support of our brands, including advertising costs, sponsorship fees and special promotional events. As part of our marketing activities, we may provide retailers and distributors with promotions and point-of-sale displays; our bottling partners with advertising support and funds designated for the purchase of cold-drink equipment; and our consumers with coupons, discounts and promotional incentives. These marketing expenditures help to enhance awareness of and increase consumer preference for our brands. We believe that greater awareness and preference promotes long-term growth in unit case volume, per capita consumption and our share of worldwide nonalcoholic beverage sales.

The Beverage Industry

We operate in the highly competitive global commercial beverage industry. We face strong competition from other general and specialty beverage companies. We, along with other beverage companies, are affected by a number of factors including, but not limited to, cost to manufacture and distribute products, consumer debt levels, economic conditions, consumer preferences, employment, inflation, political climate, local and national laws and regulations, foreign currency exchange fluctuations, fuel prices and weather patterns.

Strengths of Our Company

Our Brands. Coca-Cola is the most popular and biggest-selling soft drink in history, and is recognized as the most valuable brand in the world. Our Company owns or licenses nearly 400 brands—including carbonated soft drinks, juices and juice drinks, sports drinks, water products, teas, coffees and other beverages—of which approximately 1.3 billion servings a day are consumed worldwide.

Our Distribution System. Our bottlers sell our branded products in over 200 countries on six continents to businesses and institutions including retail chains, supermarkets, restaurants, small neighborhood grocers, sports and entertainment venues and schools and colleges. We continue to expand our marketing presence and increase our unit case volume growth in emerging economies throughout Asia, Africa and Latin America. Our strong and stable system helps us to capture growth by distributing existing, enhanced and new, innovative products to our consumers throughout the world.

Our People. Our employees, whom we call “associates,” are integral to our success. Our associates work closely with our bottling partners and other key constituencies to understand consumer preferences and market conditions around the world. To meet our long-term objectives, we recruit and actively cultivate a diverse workforce and establish a culture that fosters learning, innovation and value creation on a daily basis.

Strategic Initiatives

Establishing Our Marketing Leadership. Carbonated soft drinks (“CSDs”) remain a fundamental and profitable part of our family of brands, and we believe we should invest in marketing our family of brands more aggressively than in the past few years. In addition, we need to further expand our new products pipeline and continue to develop our innovation capabilities. Accordingly, we plan to increase our marketing and innovation spending by approximately \$400 million in 2005 and intend to maintain the increased spending level for the foreseeable future.

Unleashing Our System’s Potential. Driving enhanced revenue growth across the system is a key focus area. Our plans in this area are centered on tailoring strategies to match consumer occasions, offering differentiated packages, building value with customers, strengthening in-market execution and supporting our family of brands with strong marketing activities. Markets where we effectively implement a brand, package, price and channel strategy as a system have seen strong results. Our initiatives in this area are focused around training, sharing learning across the system, and capitalizing on immediate consumption opportunities. In this regard, we are refocusing on the basics of distribution and on increased service to the many outlets in the marketplace. To

further strengthen our capabilities in serving our largest customers, we have established, at a senior level, a Chief Customer Officer.

Executing with Excellence Globally. We have a very solid base of operations throughout the world, though some regions have recently experienced inconsistent performance. While we are working hard to grow the business throughout the world, we intend to focus specifically on performance improvement in two geographic areas: North America and Germany.

In North America, together with our bottling partners, we will focus on continually balancing volume, price and mix. In 2005, our plan in North America reflects a rigorous revenue growth management approach to our pricing as well as enhanced marketing and additional innovation. We have worked very hard over the last few months with our bottling partners to ensure that our paths and goals are aligned and that together we can implement our growth plan. We are in agreement with our bottling partners with respect to our strategic future and our mutual goals reflect a balanced volume and price growth plan for 2005.

In Germany, given the retail consolidation and rise of the discount chains, we are in the process of consolidating our bottling system to improve efficiencies. Although the system has gone from 116 bottlers in 1974 to nine bottlers in 2004, we are working toward a single bottler system in the German market in order to simplify our bottling and distribution operations. As a result, we have informed our independent bottling partners in Germany that their bottlers' agreements will not be renewed when they expire. Since the independent bottlers' agreements expire from 2007 through 2011, we do not expect a quick resolution; however, we expect to move closer to our goal over the next two to three years.

Our business demands excellence in execution. Our business is not overly complicated but we operate in a dynamic, fast-paced environment of global markets and competitive economies. Excellent execution requires discipline, concrete objectives, routines, reporting, follow up, asking hard questions and the desire to take risks. The beverage industry provides more than enough opportunities for growth, but it will take a relentless focus on execution to capitalize on those opportunities.

We have identified several specific areas that provide opportunities for growth. We believe significant growth potential exists in diet and light products and we intend to make investments to accelerate that growth. We also believe that the immediate consumption channel offers significant growth potential and we plan to expand the quality and quantity of our presence in this channel. As consumer preferences change, we must ensure that our family of brands is selectively and profitably expanded to address these changing preferences. In every market we must focus on the financial health of the entire Coca-Cola system. We must look for new opportunities with each customer and allocate resources to maximize the impact on any customer opportunities. We believe we can capture this growth by focusing on our core brands to maximize the potential of each brand and through additional innovation.

Revitalizing the Organization. The organizational realignments of 2000 and 2003 negatively impacted the trust within our Company and our system, that had been engendered over our 118-year history. Our goal is to revive that trust. We also realize that our bench strength has been weakened as a result of these two organizational realignments. Therefore, we are investing in capability and training while simplifying and clarifying roles and responsibilities.

Value Drivers of Our Business

We believe that executing our strategic initiatives creates value. Consistent with a commitment to effective execution, our Company focuses on three key value drivers: profitable growth, leveraging operating and marketing investments and efficient capital structure.

Profitable Growth. We believe strong brands—properly supported by marketing and innovation, leveraged across markets and targeted to a broad consumer base—drive profitable growth. Our Company continues to broaden our family of brands. In particular, we are expanding and growing our noncarbonated offerings to

provide more alternatives to consumers. With this expansion and growth, our Company is focused on maintaining or increasing profit margins. We further intend to focus on improving margins in faster growing but lower-margin countries. To manage this expansion and growth, we have shifted from a volume focus to a “volume and value” focus. We believe that tailored brand, package, price and channel strategies help achieve profitable growth. We are implementing these strategies to accelerate profitable growth through close alignment with our bottling partners.

Leveraging Operating and Marketing Investments. We intend to drive increased efficiency by leveraging our operating and marketing investments. A principal focus to achieve this leverage will continue to be efficiency in the supply chain. In 2003, our Company and our bottling partners established supply chain management companies to help increase procurement efficiencies and centralize production and logistics operations in North America, Japan and China. In 2004, the Coca-Cola system began to realize some of the benefits from these initiatives. Lowering supply chain costs improves system economics. Alignment with our bottling partners on ways to achieve additional joint savings represents a critical area of focus for 2005 and beyond. In the future, our Company, together with our bottling partners, will continue to look for opportunities to leverage expenses by working to reduce duplication of efforts, consolidating operations, increasing in-market execution, simplifying the decision making process and increasing our speed to market.

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

As our cash flow increases, we expect to increase our share repurchases. Furthermore, the dividend rate increased for the 43rd straight year in 2005, and we believe that for the foreseeable future, our Board of Directors intends to increase our dividends. Refer to the heading “Financial Strategies and Risk Management.”

Measurements of Financial Performance

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

Results of Operations. Net operating revenues, gross profit, operating income, income before income taxes and net income per share are key measurements of our operating performance. In 2004, net operating revenues totaled approximately \$22.0 billion, a 4 percent increase from 2003. Gross profit totaled approximately \$14.3 billion in 2004, an 8 percent increase from 2003. Operating income was approximately \$5.7 billion, a 9 percent increase from 2003. Income before income taxes was approximately \$6.2 billion, a 13 percent increase from 2003. Net income per share (basic and diluted) was \$2.00 for 2004, a 13 percent increase from 2003. These measurements will continue to be a key management focus in 2005 and beyond. Refer to the heading “Operations Review.”

Liquidity and Capital Resources. In 2004, our net cash provided by operating activities was approximately \$6.0 billion, a 9 percent increase from 2003. For years 2005 through 2009, we expect our cumulative net cash provided by operating activities to be in excess of \$30 billion. We believe this is one of our Company’s strengths—the ability to generate significant cash flows to reinvest in our business. We utilize our cash in ways that the Board of Directors and management believe provide the greatest shareowner value. Principal uses of our cash flows are:

- *Share repurchases.* In 2004, share repurchases were approximately \$1.7 billion, and we expect 2005 share repurchases to be at least \$2.0 billion.
- *Dividends.* In 2004, dividends were approximately \$2.4 billion, and we anticipate that the total dividends paid will again increase in 2005.

- *Capital expenditures.* In 2004, capital expenditures were \$755 million, and we expect 2005 capital expenditures to again be less than \$1 billion.

Refer to the heading “Liquidity, Capital Resources and Financial Position.”

Challenges, Risks and Opportunities

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

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

Obesity and Inactive Lifestyles. Increasing consumer, public health and government awareness of the health problems arising from obesity and inactive lifestyles represents a significant challenge to our industry. We recognize that obesity is a complex and serious public health problem. Our commitment to consumers begins with our broad product line, which includes a wide selection of diet and light beverages, juices and juice drinks, sports drinks and water products. Our commitment also includes adhering to responsible policies in schools and in the marketplace; supporting programs to encourage physical activity and to promote nutrition education; and continuously meeting changing consumer needs through beverage innovation, choice and variety. We are committed to playing an appropriate role in helping address this issue in cooperation with governments, educators and consumers through science-based solutions and programs. As part of that commitment, in 2004, our Company created The Beverage Institute for Health & Wellness (the “Institute”), which is based in Houston, Texas. The Institute is an organization that supports scientific research, education and outreach with a primary focus on beverages. The Institute supports research to help better understand the role that beverages can play in diets and health in both developed and developing countries around the world. This effort may lead to the creation of new beverage products by the Company in addition to providing health and nutrition education.

Water Quality and Quantity. Water quality and quantity is an issue that increasingly requires our Company’s attention and collaboration with the beverage industry, governments, nongovernmental organizations and communities where we operate. Water is the main ingredient in every product the beverage industry offers. It is also a limited natural resource facing unprecedented challenges from over-exploitation, increasing pollution and poor management.

Our Company and the beverage industry are in an excellent position to share the water expertise we have developed in the communities we serve—in source management, unique multiple barrier water treatment, advanced wastewater treatment systems, rainwater harvesting and use of emerging innovative technologies such as desalination. As demand for water continues to increase around the world, we expect commitment and continued action on our part will be crucial in the successful long-term stewardship of this critical natural resource.

Evolving Consumer Preferences. Consumers want more choices. We are impacted by shifting customer demographics and needs, on-the-go lifestyles, aging populations in developed markets and consumers who are empowered with more information than ever. We are committed to generating new avenues for growth through our core brands with a focus on diet and light products. We are also committed to providing consumers with a wide variety of choices to meet these needs, desires and lifestyle choices.

Increased Competition and Capabilities in the Marketplace. Our Company is facing strong competition from some well established global companies and many local players. We must continue to selectively expand into other profitable segments of the nonalcoholic beverage industry and re-energize our marketing and innovation in order to maintain our brand loyalty and share.

All four of these challenges and risks—obesity and inactive lifestyles, water quality and quantity, evolving consumer preferences and increased competition—have the potential to have a material adverse effect on the beverage industry and on our Company; however, we believe our Company is well positioned to appropriately address these challenges and risks.

Financial Strategies and Risk Management

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

Debt Financing

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

As of December 31, 2004, our long-term debt was rated "A+" by Standard & Poor's and "Aa3" by Moody's, and our commercial paper program was rated "A-1" and "P-1" by Standard & Poor's and Moody's, respectively. In assessing our credit strength, both Standard & Poor's and Moody's consider our capital structure and financial policies as well as aggregated balance sheet and other financial information for the Company and certain bottlers, including CCE and Coca-Cola HBC. While the Company has no legal obligation for the debt of these bottlers, the rating agencies believe the strategic importance of the bottlers to the Company's business model provides the Company with an incentive to keep these bottlers viable. If our credit ratings were reduced by the rating agencies, our interest expense could increase. Additionally, if certain bottlers' credit ratings were to decline, the Company's share of equity income could be reduced as a result of the potential increase in interest expense for these bottlers.

The rating agencies monitor our interest coverage ratio. Rating agencies often exclude unusual items from the calculation; however, we calculated our ratio based on our reported results. Generally, this ratio is computed as income before taxes plus interest expense and capitalized interest divided by the sum of interest expense and capitalized interest. Our interest coverage ratios were 33x, 32x and 28x, respectively, for the years ended December 31, 2004, 2003 and 2002. Refer to the heading "Reconciliation of Non-GAAP Financial Measures."

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

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

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

December 31,	2004	2003	2002
Net debt (in billions) ¹	\$ 0.4	\$ 1.9	\$ 3.0
Net debt-to-net capital ¹	2.5%	12.1%	20.3%
Ratio of earnings to fixed charges	25.8x	24.6x	23.2x

¹ Refer to the heading "Reconciliation of Non-GAAP Financial Measures."

Our Company monitors the financial measures discussed above in conjunction with our mix of fixed-rate and variable-rate debt and other business and financial risks. The above financial measures trended positively in 2004 and 2003, reflecting improved business results and effective capital management strategies.

Share Repurchases

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

Year Ended December 31,	2004	2003	2002
Number of shares repurchased (in millions)	38	33	14
Average price per share	\$ 46.33	\$ 44.33	\$ 48.42

Since the inception of our initial share repurchase program in 1984 through our current program as of December 31, 2004, we have purchased more than 1 billion shares of our Company’s common stock. This represents 34.5 percent of the shares outstanding as of January 1, 1984 at an average price per share of \$15.14.

We expect to repurchase at least \$2 billion of the Company’s common stock in 2005. Because we expect our operating cash flows to increase, we also expect to increase repurchases of the Company’s common stock in subsequent years.

Dividends

At its February 2005 meeting, our Board of Directors again increased our quarterly dividend by 12 percent, raising it to \$0.28 per share, equivalent to a full-year dividend of \$1.12 per share in 2005. This is our 43rd consecutive annual increase. Our annual common stock dividend was \$1.00 per share, \$0.88 per share and \$0.80 per share in 2004, 2003 and 2002, respectively. The 2004 dividend represented a 14 percent increase from 2003, and the 2003 dividend represented a 10 percent increase from 2002.

Financial Risk Management

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

Foreign Currency. We manage most of our foreign currency exposures on a consolidated basis, which allows us to net certain exposures and take advantage of any natural offsets. Approximately 78 percent of 2004 operating income was generated outside the United States; therefore, weakness in one particular currency is often offset by strengths in others over time. We use derivative financial instruments to further reduce our net exposure to currency fluctuations.

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

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

Value at Risk. We monitor our exposure to financial market risks using several objective measurement systems, including value-at-risk models. Our value-at-risk calculations use a historical simulation model to

estimate potential future losses in the fair value of our derivatives and other financial instruments that could occur as a result of adverse movements in foreign currency and interest rates. We have not considered the potential impact of favorable movements in foreign currency and interest rates on our calculations. We examined historical weekly returns over the previous 10 years to calculate our value at risk. The average value at risk represents the simple average of quarterly amounts over the past year. As a result of our foreign currency value-at-risk calculations, we estimate with 95 percent confidence that the fair values of our foreign currency derivatives and other financial instruments, over a one-week period, would decline by less than \$17 million, \$26 million and \$34 million, respectively, using 2004, 2003 or 2002 average fair values and by less than \$18 million and \$28 million, respectively, using December 31, 2004 and 2003 fair values. According to our interest rate value-at-risk calculations, we estimate with 95 percent confidence that any increase in our net interest expense due to an adverse move in our 2004 average or in our December 31, 2004 interest rates over a one-week period would not have a material impact on our consolidated financial statements. Our December 31, 2003 and 2002 estimates were not material to our consolidated financial statements.

Application of Critical Accounting Policies

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

Basis of Presentation and Consolidation

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). Our Company consolidates all entities that we control by ownership of a majority voting interest as well as variable interest entities for which our Company is the primary beneficiary. Refer to Note 1 for a discussion of variable interest entities.

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

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

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

Effective February 2002, our Company acquired control of Coca-Cola Erfrischungsgetraenke AG (“CCEAG”), the largest bottler of the Company’s beverage products in Germany. Under our policy, we concluded that CCEAG should be consolidated in our consolidated financial statements. Prior to February 2002, our Company accounted for CCEAG under the equity method of accounting. At that time, our Company had approximately 41 percent ownership interest in the outstanding shares of CCEAG. In February 2002, in accordance with the terms of the Control and Profit and Loss Transfer Agreement (“CPL”), our Company obtained control of CCEAG for a period of up to five years. Furthermore, we also entered into a Pooling Agreement with certain shareowners of CCEAG that provided our Company with voting control of CCEAG. In return for control of CCEAG, the Company guaranteed annual payments in lieu of dividends by CCEAG, to all other CCEAG shareowners. Additionally, all other CCEAG shareowners entered into either a put or a put/call option agreement with the Company, exercisable at any time up to December 31, 2006. Our Company entered

into either put or put/call agreements for shares representing an approximately 59 percent interest in CCEAG. The spread in the strike prices of the put and call options is approximately 3 percent.

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

In December 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities” (“Interpretation 46” or “FIN 46”). We adopted Interpretation 46 on March 31, 2004. Refer to Note 1.

Recoverability of Noncurrent Assets

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

Operating in more than 200 countries subjects our Company to many uncertainties and risks related to various economic, political and regulatory environments. Refer to the headings “Our Business—Challenges, Risks and Opportunities” and “Forward-Looking Statements.” As a result, many assumptions must be made by management when determining the recoverability of noncurrent assets.

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

December 31, 2004	Carrying Value	Percentage of Total Assets
(In millions except percentages)		
Tested for impairment when conditions exist that indicate carrying value may not be recoverable:		
Equity method investments	\$ 5,897	19
Cost method investments, principally bottling companies	355	1
Other assets	3,054	10
Property, plant and equipment, net	6,091	19
Amortized intangible assets, net (various, principally trademarks)	164	1
Total	\$ 15,561	50
Tested for impairment at least annually or when events indicate that an asset may be impaired:		
Trademarks with indefinite lives	\$ 2,037	7
Goodwill	1,097	3
Bottlers’ franchise rights	374	1
Other intangible assets not subject to amortization	164	1
Total	\$ 3,672	12

Many of the noncurrent assets listed above are located in markets that we consider to be developing or to have changing political environments. These markets include Germany, where the nonreturnable deposit law

creates uncertainty; the Middle East and Egypt, where political and civil unrest continues; India, where affordability remains an issue; and certain markets in Latin America, Asia and Africa where local economic and political conditions are unstable. In many of these markets, the Company has bottling assets and investments. The list below reflects the Company's carrying value of noncurrent assets which, by nature, involve inherent risks not relevant to assets located in developed or stable markets.

December 31, 2004	Carrying Value	Percentage of Applicable Line Item Above
(In millions except percentages)		
Tested for impairment when conditions exist that indicate carrying value may not be recoverable:		
Equity method investments	\$ 462	8
Cost method investments, principally bottling companies	107	30
Other assets	95	3
Property, plant and equipment, net	2,040	33
Amortized intangible assets, net (various, principally trademarks)	78	48
Total	\$ 2,782	18
Tested for impairment at least annually or when events indicate that an asset may be impaired:		
Trademarks with indefinite lives	\$ 222	11
Goodwill	0	0
Bottlers' franchise rights	142	38
Other intangible assets not subject to amortization	40	24
Total	\$ 404	11

Equity Method and Cost Method Investments. Every reporting period the Company reviews its equity and cost method investments to determine whether a significant event or change in circumstances has occurred that may have an adverse effect on the fair value of each investment. When such events or changes occur, the Company evaluates the fair value compared to the carrying value of the related investments. The Company also performs this evaluation every reporting period for any investments for which the carrying value has exceeded the fair value. For most publicly traded investments, the fair value of our Company's investment is often readily available based on quoted market prices. For non-publicly traded investments, management's assessment of fair value is based on valuation methodologies including discounted cash flows, estimates of sales proceeds and external appraisals, as appropriate. The ability to accurately predict future cash flows, especially in developing and unstable markets, may impact the determination of fair value.

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

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

December 31, 2004	Fair Value	Carrying Value	Difference
Coca-Cola Enterprises Inc.	\$ 3,522	\$ 1,569	\$ 1,953
Coca-Cola FEMSA, S.A. de C.V.	1,720	792	928
Coca-Cola Amatil Limited	1,539	736	803
Coca-Cola Hellenic Bottling Company S.A.	1,353	1,067	286
Grupo Continental, S.A.	298	174	124
Coca-Cola Embonor S.A.	156	153	3
Coca-Cola Bottling Company Consolidated	142	63	79
Coca-Cola West Japan Company Ltd.	104	132	(28) ¹
Embotelladoras Polar S.A.	59	46	13
	\$ 8,893	\$ 4,732	\$ 4,161

¹ The current decline in value is considered to be temporary.

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

Property, Plant and Equipment. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of property, plant and equipment should be assessed. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, or a current-period operating or cash flow loss combined with historical losses or projected future losses. If an event occurs or changes in circumstances are present, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value.

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

Our trademarks and other intangible assets determined to have definite lives are amortized over their useful lives. In accordance with SFAS No. 142, if conditions exist that indicate the carrying value may not be recoverable, we review such trademarks and other intangible assets with definite lives for impairment to ensure they are appropriately valued. Such conditions may include an economic downturn in a market or a change in the assessment of future operations. Trademarks and other intangible assets determined to have 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 assets might be impaired.

Goodwill is not amortized. We perform tests for impairment of goodwill annually, or more frequently if events or circumstances indicate it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying value, including goodwill. We use a variety of methodologies in conducting these impairment assessments including cash flow analyses, estimates of sales proceeds and independent appraisals. Where applicable, we use an appropriate discount rate, based on the Company's cost of capital rate or location-specific economic factors.

In 2004, our Company recorded impairment charges related to intangible assets of approximately \$374 million, primarily related to franchise rights at CCEAG in the Europe, Eurasia and Middle East operating segment. The CCEAG impairment was the result of our revised outlook for the German market, which has been unfavorably impacted by volume declines resulting from market shifts away from our branded products related to the deposit law on nonreturnable beverage packages and the corresponding lack of availability of our products in the discount retail channel. The deposit law in Germany has led to discount chains creating proprietary packages that can only be returned to their own stores. These proprietary packages are continuing to gain market share and customer acceptance. We determined the amount of the impairment by comparing the fair value of the intangible assets to the current carrying value. Fair values were derived using discounted cash flow analyses with a number of scenarios that were weighted based on the probability of different outcomes. Because the fair value was less than the carrying value of the assets, we recorded an impairment charge to reduce the carrying value of the assets to fair value. These impairment charges are recorded in the line item other operating charges in our consolidated statement of income for 2004. Our Company is evaluating our strategies for the German operations, including addressing significant structural issues that limit the system's ability to respond effectively to the evolving retail and consumer landscape, assessing market changes and determining our expectations related to the political environment. We have concluded that, in order to better serve our customers and control the costs in our supply chain, we need to simplify our bottling and distribution operations in Germany and work toward a single bottler system. As a result, we have informed our independent bottling partners in Germany that their Bottlers' Agreements will not be renewed when they expire, from 2007 through 2011. Further changes in our business plan, the political environment or market shifts could result in future charges. Management will continue to monitor these factors.

At the end of 2004, the German government passed an amendment to the mandatory deposit legislation that will require retailers, including discount chains, to accept returns of each type of non-refillable beverage containers which they sell, regardless of where the beverage container type was purchased. In addition, the mandatory deposit requirement was expanded to other beverage categories. The amendment allows for a transition period to enable manufacturers and retailers to establish a national take-back system for non-refillable containers. The transition period is expected to last at least until mid-2006. Therefore, we expect 2005 to continue to be a challenging time for our business in Germany.

Income Tax Expense and Accruals

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves at the time that we determine that it is probable that we will be liable to pay additional taxes related to certain matters. We adjust these reserves, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit.

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we record a reserve when we determine the likelihood of loss is probable. Such liabilities are recorded in the line item accrued income taxes in the Company's consolidated balance sheets. Settlement of any particular issue would usually require the use of cash. Favorable resolutions of tax matters for which we have previously established reserves are recognized as a reduction to our income tax expense when the amounts involved become known.

Tax law requires items to be included in the tax return at different times than when these items are reflected in the consolidated financial statements. As a result, our annual tax rate reflected in our consolidated financial statements is different than that reported in our tax return (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities. The tax rates used to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year in which the differences are expected to reverse. Based on the evaluation of all available information, the Company recognizes future tax benefits, such as net operating loss carryforwards, to the extent that realizing these benefits is considered more likely than not.

We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing our forecasted taxable income using both historical and projected future operating results, the reversal of existing temporary differences, taxable income in prior carry-back years (if permitted) and the availability of tax planning strategies. A valuation allowance is required to be established unless management determines that it is more likely than not that the Company will ultimately realize the tax benefit associated with a deferred tax asset.

Additionally, undistributed earnings of a subsidiary are accounted for as a temporary difference except that deferred tax liabilities are not recorded for undistributed earnings of a foreign subsidiary that are deemed to be indefinitely reinvested in the foreign jurisdiction. The Company has formulated a specific plan for reinvestment of undistributed earnings of its foreign subsidiaries which demonstrates that such earnings will be indefinitely reinvested in the applicable jurisdictions. Should we change our plans, we would be required to record a significant amount of deferred tax liabilities.

In October 2004, the American Jobs Creation Act of 2004 (the “Jobs Creation Act”) was signed into law. The Jobs Creation Act includes a temporary incentive for U.S. multinationals to repatriate foreign earnings at an effective 5.25 percent tax rate. Such repatriations must occur in either an enterprise’s last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment.

The FASB staff believes that the lack of clarification of certain provisions within the Jobs Creation Act and the timing of the enactment necessitate a practical exception to the SFAS No. 109, “Accounting for Income Taxes,” (“SFAS No. 109”) requirement to reflect the effect of a new tax law in the period of enactment. Accordingly, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Creation Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109.

Our Company is currently considering the effects of the repatriation provisions of the Jobs Creation Act. As of December 31, 2004, management had not decided on whether, and to what extent, we might repatriate foreign earnings under the Jobs Creation Act and, accordingly, the consolidated financial statements for 2004 do not reflect any provision for taxes on unremitted foreign earnings that may be repatriated under the Jobs Creation Act. In 2004, our Company recorded an income tax benefit of approximately \$50 million as a result of the realization of certain tax credits related to other provisions of the Jobs Creation Act.

The Company estimates our effective tax rate for 2005 will be approximately 25 percent. This estimated tax rate does not reflect the impact of the Jobs Creation Act and any unusual or special items that may affect our tax rate in any future period. Refer to Note 15.

Contingencies

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

The Company is a party to various legal proceedings in which we are seeking to be reimbursed for costs that we have incurred in the past. Although none of these reimbursements has been realized at this time, the Company expects final resolution of certain matters in 2005. Management believes that any gains to the Company that may arise as a result of the final resolutions of these matters will not have a material effect on the financial condition of the Company taken as a whole.

Operations Review

Analysis of Consolidated Statements of Income

Year Ended December 31,	2004	2003	2002	Percent Change	
				04 vs. 03	03 vs. 02
(In millions except per share data and percentages)					
NET OPERATING REVENUES	\$ 21,962	\$ 21,044	\$ 19,564	4	8
Cost of goods sold	7,638	7,762	7,105	(2)	9
GROSS PROFIT	14,324	13,282	12,459	8	7
GROSS PROFIT MARGIN	65.2%	63.1%	63.7%		
Selling, general and administrative expenses	8,146	7,488	7,001	9	7
Other operating charges	480	573	—	(16)	*
OPERATING INCOME	5,698	5,221	5,458	9	(4)
OPERATING MARGIN	25.9%	24.8%	27.9%		
Interest income	157	176	209	(11)	(16)
Interest expense	196	178	199	10	(11)
Equity income—net	621	406	384	53	6
Other income (loss)—net	(82)	(138)	(353)	*	*
Gains on issuances of stock by equity investees	24	8	—	*	*
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	6,222	5,495	5,499	13	—
Income taxes	1,375	1,148	1,523	20	(25)
Effective tax rate	22.1%	20.9%	27.7%		
NET INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	4,847	4,347	3,976	12	9
Cumulative effect of accounting change for SFAS No. 142, net of income taxes:					
Company operations	—	—	(367)	*	*
Equity investees	—	—	(559)	*	*
NET INCOME	\$ 4,847	\$ 4,347	\$ 3,050	12	43
PERCENTAGE OF NET OPERATING REVENUES	22.1%	20.7%	15.6%		
NET INCOME PER SHARE:					
Basic	\$ 2.00	\$ 1.77	\$ 1.23	13	44
Diluted	\$ 2.00	\$ 1.77	\$ 1.23	13	44
OTHER KEY FINANCIAL MEASURES¹					
Total debt-to-total capital	31.1%	27.8%	31.2%		
Net debt-to-net capital	2.5%	12.1%	20.3%		
Return on average shareowners' equity	32.3%	33.6%	34.3%		
Return on average total capital	23.5%	24.5%	24.5%		

¹ Refer to the heading "Reconciliation of Non-GAAP Financial Measures."

* Calculation is not meaningful.

Refer to the above Analysis of Consolidated Statements of Income while reading the operations review discussion below.

Net Operating Revenues

Net operating revenues increased by \$918 million in 2004 versus 2003. Net operating revenues increased by \$1,480 million in 2003 versus 2002.

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

	Percent Change	
	2004 vs. 2003	2003 vs. 2002
Increase in gallon sales, including acquisitions	2%	3%
Structural changes	(3)	(1)
Price and product/geographic mix	0	1
Impact of currency fluctuations versus the U.S. dollar	5	5
Total percentage increase	4%	8%

Our gallon sales increased by 2 percent in 2004 primarily due to a 3 percent increase in Asia, a 4 percent increase in Africa and a 3 percent increase in Latin America. North America gallon sales increased by 2 percent as the Foodservice and Hospitality Division grew by 4 percent and the Retail Division increased by 1 percent. Europe was even as growth in Turkey, Russia and Spain was offset by declines in Germany. The decrease in Germany was primarily the result of market shifts related to the deposit law on non-refillable beverage packages and the corresponding lack of availability of our products in the discount retail channel. For a discussion of the operating environment in Germany, refer to the heading “Application of Critical Accounting Policies—Goodwill, Trademarks and Other Intangible Assets.” Our Company is evaluating our strategies for the German operations, including addressing significant structural issues that limit the system’s ability to respond effectively to the evolving retail and consumer landscape, assessing market changes and determining our expectations related to the political environment. We expect the German market environment to remain difficult throughout 2005. We will continue to focus on improving our short-term performance and strengthening our system’s long-term capabilities.

Company-wide gallon sales growth of 2 percent was in line with unit case volume growth. However, in North America, gallon sales increased by 2 percent in 2004 compared to 2003 while unit case volume was flat in 2004 due to lower gallon sales in 2003, additional 2004 shipments related to new product introductions, changes in our shipping routes and higher than expected year end sales. Gallon sales in Asia were 2 percent behind unit case volume due to structural changes that took place in 2003 (see discussion below). Gallon sales and unit case volume are not necessarily equal during any given period. Items such as seasonality, bottlers’ inventory practices, supply point changes, timing of price increases and new product introductions can create differences between gallon sales and unit case volume. For a more detailed discussion on unit case volume, refer to the heading “Volume.”

“Structural changes” refers to acquisitions or dispositions of bottling or canning operations, and consolidation or deconsolidation of entities for accounting purposes. Effective October 1, 2003, the Company and all of our 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, a portion of our Company’s business has essentially been converted from a finished product business model to a concentrate business model. This shift of certain products to a concentrate business model resulted in reductions in our revenues and cost of goods sold, each in the same amount. This change in the business model did not impact gross profit. The decrease in net revenues from 2003 to 2004 attributable to the Japan structural change was approximately \$780 million, which was partially offset by an approximately \$260 million increase in revenues associated with the consolidation as of March 31, 2004 of certain bottling operations that are considered variable interest entities. Refer to Note 1.

The impact of currency fluctuations versus the U.S. dollar in 2004 was driven primarily by the stronger euro which favorably impacted the Europe, Eurasia and Middle East operating segment, and the stronger yen which favorably impacted the Asia operating segment. Refer to the heading “Liquidity, Capital Resources and Financial Position—Exchange.”

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

Structural changes resulted in a decrease in net operating revenues in 2003 compared to 2002 due partially to the deconsolidation of Cosmos Bottling Corporation (“CBC”) during the second quarter of 2003 and the creation of a national supply chain company in Japan effective October 1, 2003 as discussed above. This decrease was partially offset by the inclusion of one additional month of revenue from CCEAG. CCEAG was consolidated in February 2002; therefore, the 2002 period contained only 11 months of CCEAG revenues versus the full year in 2003.

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

The impact of currency fluctuations versus the U.S. dollar in 2003 was driven primarily by the stronger euro which favorably impacted the Europe, Eurasia and Middle East operating segment and the stronger yen which favorably impacted the Asia operating segment. This impact was partially offset by generally weaker currencies negatively impacting our Latin America operating segment.

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

Year Ended December 31,	2004	2003	2002
North America	30.2%	30.1%	32.0%
Africa	4.9	3.9	3.5
Asia	21.3	24.0	25.8
Europe, Eurasia and Middle East	32.8	31.2	26.9
Latin America	9.7	9.7	10.7
Corporate	1.1	1.1	1.1
Net operating revenues	100.0%	100.0%	100.0%

The percentage contribution to net operating revenues by Africa increased in 2004 due to significant volume increases in South Africa as a result of successful marketing strategies, favorable currency rates and the consolidation of our bottling operations in Egypt under Interpretation 46. The percentage contribution to net operating revenues by Asia declined in 2004 due to the creation of an integrated supply chain management company in Japan, partially offset by favorable currency rates. The percentage contribution to net operating

revenues by Europe, Eurasia and Middle East increased in 2004 primarily due to favorable currency rates, partially offset by decreased sales in Germany.

The percentage contribution to net operating revenues by Europe, Eurasia and Middle East significantly increased in 2003 due to innovation, strong marketing strategies, positive currency exchange rate trends and favorable weather during the summer months.

Gross Profit

Gross profit margin was approximately 2 percentage points higher in 2004 versus 2003. This increase was primarily the result of the creation of a nationally integrated supply chain management company in Japan in October 2003 partially offset by the consolidation as of March 31, 2004 of variable interest entities under Interpretation 46. Generally, bottling and finished product operations, such as our Japan tea business that was integrated into the supply chain company, produce higher net revenues but lower gross profit margins compared to concentrate and syrup operations.

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

Selling, General and Administrative Expenses

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

Year Ended December 31,	2004	2003	2002
Selling expenses	\$ 3,296	\$ 3,157	\$ 2,978
Advertising expenses	2,165	1,822	1,712
General and administrative expenses	2,340	2,102	1,946
Stock-based compensation expense	345	407	365
Selling, general and administrative expenses	\$ 8,146	\$ 7,488	\$ 7,001

Selling, general and administrative expenses were approximately 9 percent higher in 2004 versus 2003. Approximately 3 percentage points of this increase were due to an overall weaker U.S. dollar (especially compared to the euro and Japanese yen). Increased selling expenses were due to increased delivery costs related to our Company's finished products business and structural changes. Increased advertising expenses were the result of investments in marketing activities, such as the launch of new products in North America and Japan. Additionally, general and administrative expenses increased due to higher legal expenses, asset write-offs and structural changes. Finally, we received a \$75 million insurance settlement related to the class-action lawsuit that was settled in 2000. The Company subsequently donated \$75 million to the Coca-Cola Foundation. Beginning in 2005, our Company plans to increase our marketing and innovation spending by approximately \$400 million in 2005 and intends to maintain the increased spending level for the foreseeable future.

Selling, general and administrative expenses were approximately 7 percent higher in 2003 versus 2002. Approximately 4 percentage points of this increase was due to an overall weaker U.S. dollar (primarily compared to the euro). These expenses also increased by \$75 million as a result of increases for benefit plans including defined benefit pension plans, defined contribution pension plans, and postretirement health care and life insurance benefit plans. Selling expenses increased by approximately \$32 million due to the inclusion of one additional month of operations for CCEAG in 2003 compared to 2002. The Seagram's mixers, CCDA and Evian

transactions during 2002 resulted in an increase of approximately \$43 million in selling, general and administrative expenses as a result of including full-year expenses in 2003 compared to only a portion of 2002. These increases were partially offset by effective management of operating expenses.

As discussed in Notes 1 and 13, effective January 1, 2002, our Company adopted the preferable fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and selected the modified prospective transition method under the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." Prior to 2002, our Company accounted for stock-based compensation under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations. In 2004, 2003 and 2002, stock-based compensation expense was recognized as if the fair value method of SFAS No. 123 had been applied from its original effective date.

Other Operating Charges

The other operating charges incurred by operating segment were as follows (in millions):

Year Ended December 31,	2004	2003
North America	\$ 18	\$ 273
Africa	—	12
Asia	15	18
Europe, Eurasia and Middle East	377	183
Latin America	6	20
Corporate	64	67
Total	\$ 480	\$ 573

Other operating charges in 2004 reflected the impact of approximately \$480 million of expenses primarily related to impairment charges for franchise rights and certain manufacturing assets. The Europe, Eurasia and Middle East operating segment accounted for approximately \$377 million of the impairment charges, which were primarily related to the impairment of franchise rights at CCEAG. For a discussion of the operating environment in Germany, refer to the heading "Application of Critical Accounting Policies—Goodwill, Trademarks and Other Intangible Assets." The Corporate operating segment accounted for approximately \$64 million of the impairment charges, which were primarily related to the impairment of certain manufacturing assets.

Operating income in 2003 reflected the impact of approximately \$561 million of expenses related to the 2003 streamlining initiatives. A majority of the charges related to initiatives in North America and Germany. In North America, the Company integrated the operations of three separate North American business units—Coca-Cola North America, The Minute Maid Company and Coca-Cola 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.

These initiatives resulted in the separation of approximately 3,700 associates in 2003, primarily in North America, Germany and Asia. As a result of these streamlining initiatives, apart from the charge to 2003 earnings of \$561 million, we estimate that the Company's financial results benefited by approximately \$50 million (pretax) in 2003 and \$100 million (pretax) in 2004. Refer to Note 17.

Operating Income and Operating Margin

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

Year Ended December 31,	2004	2003	2002
North America	28.2%	24.6%	28.1%
Africa	6.0	4.8	4.1
Asia	30.9	32.4	33.3
Europe, Eurasia and Middle East	33.3	36.5	29.5
Latin America	18.7	18.6	19.0
Corporate	(17.1)	(16.9)	(14.0)
Operating income	100.0%	100.0%	100.0%

Information about our operating margin by operating segment is as follows:

Year Ended December 31,	2004	2003	2002
North America	24.2%	20.2%	24.4%
Africa	31.9	30.1	32.7
Asia	37.5	33.5	36.0
Europe, Eurasia and Middle East	26.4	29.1	30.6
Latin America	50.4	47.5	49.4
Corporate	*	*	*
Operating margin	25.9%	24.8%	27.9%

* Calculation is not meaningful.

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

- In 2004, as a result of impairment charges, operating income was reduced by approximately \$18 million for North America, \$15 million for Asia, \$377 million for Europe, Eurasia and Middle East, \$6 million for Latin America and \$64 million for Corporate. Refer to Note 16.
- In 2004, operating income increased by approximately 9 percent. Of this amount, 8 percent was due to favorable foreign currency exchange primarily related to the euro, which impacted the Europe, Eurasia and Middle East operating segment and the yen, which impacted the Asia operating segment.
- In 2004, as a result of the creation of a nationally integrated supply chain management company in Japan, operating margins in the Asia operating segment increased. Generally, finished product operations produce higher net revenues but lower operating margins compared to concentrate and syrup operations. Refer to the heading “Operations Review—Net Operating Revenues.”
- In 2004, operating income in the Corporate operating segment increased by \$75 million due to the receipt of an insurance settlement related to the class-action lawsuit which was settled in 2000.
- In 2004, operating income in the Corporate operating segment decreased by \$75 million due to a donation to the Coca-Cola Foundation.
- In 2004, as a result of consolidation of certain bottling operations that are considered variable interest entities, operating margins for the Africa, Asia and Europe, Eurasia and Middle East operating segments were reduced. Generally, bottling operations produce higher net revenues but lower operating margins compared to concentrate and syrup operations.

- As a result of streamlining charges, 2003 operating income was reduced by approximately \$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. Refer to Note 17.
- In 2003, Europe, Eurasia and Middle East operating income significantly increased due to innovation, strong marketing strategies, rigorous cost management, positive currency trends and favorable weather during the summer months.
- As a result of the Company's receipt of a settlement related to a vitamin antitrust litigation matter, operating income in 2003 increased by approximately \$52 million for Corporate. Refer to Note 16.

Interest Income and Interest Expense

In 2004, interest income decreased by \$19 million compared to 2003 primarily due to lower interest income earned on short-term investments and interest income in 2003 related to certain tax receivables. While our Company's average short-term investment balances increased during 2004, significant amounts of these balances were held in lower interest earning locations than in prior years while the Company analyzed the impact of the Jobs Creation Act. Interest expense in 2004 increased by \$18 million primarily as a result of higher average interest rates and higher average balances on commercial paper borrowings in the United States.

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

Equity Income—Net

Our Company's share of income from equity method investments for 2004 totaled \$621 million compared to \$406 million in 2003, an increase of \$215 million or 53 percent. Equity income for 2004 benefited by approximately \$37 million from our proportionate share of a favorable tax settlement related to Coca-Cola FEMSA. Additionally, our equity income for 2003 was negatively impacted by a \$102 million charge primarily related to Coca-Cola FEMSA, as described below. Comparing 2004 to 2003, our equity income also benefited from favorable pricing at key bottling operations; the positive impact of the strength of most key currencies versus the U.S. dollar, especially a stronger euro; and the overall improving health of the Coca-Cola bottling system in most of the world.

Equity income from a majority of our investees increased during 2003 due to the overall improving health of the Coca-Cola bottling system around the world.

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

In connection with the merger, Coca-Cola FEMSA management initiated steps to streamline and integrate the operations. This process included the closing of various distribution centers and manufacturing plants. Furthermore, due to the challenging economic conditions and an uncertain political situation in Venezuela, certain intangible assets were determined to be impaired and written down to their fair market value. During

2003, our Company recorded a noncash charge of \$102 million primarily related to our proportionate share of these matters. This charge is included in the line item equity income—net.

Other Income (Loss)—Net

Other income (loss)—net amounted to a net loss of \$82 million for 2004 compared to a net loss of \$138 million for 2003, a difference of \$56 million. Approximately \$37 million of this difference is related to a reduction in foreign exchange losses. This line item in 2004 primarily consisted of foreign exchange losses of approximately \$39 million and the accretion of \$58 million for the discounted value of our liability to purchase CCEAG shares (refer to Note 18), partially offset by the minority shareowners' proportional share of losses on certain consolidated subsidiaries.

Other income (loss)—net amounted to a net loss of \$138 million for 2003 compared to a net loss of \$353 million for 2002, a difference of \$215 million. The significant portion of this difference related to a \$157 million charge primarily related to the write-down of certain investments in Latin America in 2002, and no such charge applied to 2003. This line item in 2003 primarily consisted of foreign exchange losses of \$76 million and accretion of \$51 million for the discounted value of our liability to purchase CCEAG shares.

Gains on Issuances of Stock by Equity Method Investees

When one of our equity method investees issues additional shares to third parties, our percentage ownership interest in the investee decreases. In the event the issuance price per share is higher or lower 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.

In 2004, our Company recorded approximately \$24 million of noncash pretax gains due to the issuances of stock by CCE. The issuances primarily related to the exercise of CCE stock options by CCE employees at amounts greater than the book value per share of our investment in CCE. These issuances of stock reduced our ownership interest in the total outstanding shares of CCE common stock by approximately 1 percent.

In 2003, our Company recorded approximately \$8 million of noncash pretax gains on issuances of stock by equity method 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. These issuances of stock reduced our ownership interest in the total outstanding shares of CCE common stock by less than 1 percent.

No gains on issuances of stock by equity method investees were recorded to our consolidated statements of income during 2002. Refer to Note 3.

Income Taxes

Our effective tax rate reflects tax benefits derived from significant operations outside the United States, which are generally taxed at rates lower than the U.S. statutory rate of 35 percent.

Our effective tax rate of approximately 22.1 percent for the year ended December 31, 2004 included the following:

- an income tax benefit of approximately \$128 million related to the reversal of previously accrued taxes resulting from the favorable resolution of various tax matters;
- an income tax benefit on “Other Operating Charges” discussed above at a rate of approximately 36 percent;
- an income tax expense on “Issuances of Stock by Equity Investee” discussed above at a rate of approximately 39 percent;

- an income tax expense on our proportionate share of the favorable tax settlement related to Coca-Cola FEMSA at a rate of approximately 35 percent;
- an income tax expense of approximately \$75 million related to the recording of a valuation allowance on deferred tax assets of CCEAG; and
- an income tax benefit of approximately \$50 million as a result of the realization of certain tax credits related to the Jobs Creation Act.

Our effective tax rate of approximately 20.9 percent for the year ended December 31, 2003 included the following:

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

Our effective tax rate of approximately 27.7 percent for the year ended December 31, 2002 included the following:

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

Looking into 2005 and for the foreseeable future, based on current tax laws, the Company's effective tax rate is expected to be approximately 25 percent. This expected tax rate does not reflect the effect of any unusual or special items that may affect our tax rate in future periods, including the Jobs Creation Act. Refer to heading "Application of Critical Accounting Policies—Income Tax Expense and Accruals."

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

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

Volume

We measure our sales volume in two ways: (1) gallons and (2) unit cases of finished products. "Gallons" is a unit of measurement for concentrates (sometimes referred to as beverage bases), syrups, finished beverages and powders (in all cases, expressed in equivalent gallons of syrup) for all beverage products which are reportable as unit case volume. Most of our revenues are based on gallon sales, as discussed under Item 1 and the heading "Operations Review—Net Operating Revenues." "Unit cases" is a unit of measurement equal to 192 U.S. fluid ounces of finished beverage (24 eight-ounce servings). Unit case volume represents the number of unit cases of licensed beverage products directly or indirectly sold by the Coca-Cola system to customers. Unit case volume is derived based on estimates supplied by our bottling partners and distributors. Gallon sales and unit case volume are not necessarily equal during any given period. Items such as seasonality, bottlers' inventory practices, supply

point changes, timing of price increases and new product introductions can create differences between gallon sales and unit case volume.

Although most of our Company's revenues are not based directly on unit case volume, we believe unit case volume is one of the measures of the underlying strength of the Coca-Cola system because it measures trends at the consumer level. The Coca-Cola system sold approximately 19.8 billion unit cases of our products in 2004 and approximately 19.4 billion unit cases in 2003. Approximate 2004 and 2003 unit case volume growth results are as follows:

	Percentage Change	
	2004 vs. 2003	2003 vs. 2002
Worldwide	2	4
North America operations	0	2
International operations—total	3	5
Africa	3	5
Asia	5	4
Europe, Eurasia and Middle East	0	5
Latin America	3	4

In the North America operating segment, unit case volume for 2004 was even compared to 2003. The Retail Division had a 1 percent decrease in unit case volume in 2004 versus 2003, primarily due to poor weather in the third quarter, higher retail pricing and lower than expected results from Coca-Cola C2. The Foodservice and Hospitality Division's unit case volume increased 2 percent as a result of effective customer programs and improved restaurant traffic.

In the Africa operating segment, unit case volume increased by 3 percent in 2004 compared to 2003, primarily as a result of the growth in South Africa, where unit case volume increased by 7 percent and Morocco and Kenya. This increase was partially offset by volume declines in Nigeria due to de-emphasis on less-profitable water packages and weakness in noncore brands and Egypt.

In the Asia operating segment, unit case volume increased by 5 percent in 2004 versus 2003, primarily led by a 22 percent growth in China as a result of a new advertising campaign, innovative packaging and promotion in the cities, and affordable 200ml packaging in the towns. Japan growth of 4 percent was driven by Trademark Coca-Cola unit case volume growth of 3 percent and trademark Fanta growth of 17 percent. These increases were offset by an 8 percent decline in the Philippines due to affordability and availability issues.

Unit case volume in the Europe, Eurasia and Middle East operating segment was even in 2004 versus 2003, primarily due to limited brand and package availability in the discount retail channel in Germany and poor weather conditions in northern Europe, partially offset by successful promotions and continued positive economic trends in Turkey, Russia and the Middle East.

Unit case volume for the Latin America operating segment increased by 3 percent in 2004 versus 2003, primarily reflecting strong growth in Brazil, Argentina and Venezuela resulting from the execution of the Company's long-term investment strategy with an emphasis on brand building, new package alternatives and close coordination with bottling partners to drive superior local marketplace execution offset by de-emphasis on large format water and powdered drinks in Mexico.

In the North America operating segment, unit case volume increased by 2 percent in 2003 compared to 2002 driven by strong contributions from the Diet Coke brands and the national rollout of the Fridge Pack. In addition, performance in the Foodservice and Hospitality Division steadily improved throughout the year as economic conditions and restaurant traffic improved. Further, unit case volume for trademark Sprite increased by 7 percent, POWERade by 21 percent and Dasani by 16 percent during 2003.

The Africa operating segment's unit case volume increased by 5 percent in 2003 compared to 2002, mainly driven by strong growth in South Africa. Trademark Coca-Cola increased by 11 percent during the year in South Africa as a result of continued rollout of the "Real" campaign, a successful summer promotion and strong marketplace execution. In the North and West Africa Division, unit case volume increased by 6 percent, led by strong growth in Morocco and Cameroon, and the expansion into new markets.

In the Asia operating segment, unit case volume increased by 4 percent in 2003 compared to 2002, reflecting the short-term negative impact of Severe Acute Respiratory Syndrome ("SARS") and negative publicity related to allegations of a pesticide issue in India. In China, unit case volume increased by 16 percent, as the Company adapted quickly to the SARS crisis and achieved double-digit growth for both carbonated soft drinks and noncarbonated beverages. In Japan, unit case volume declined by 3 percent due to poor weather conditions during the key summer months, which impacted the entire beverage industry. In India, unit case volume increased by 22 percent in 2003 due to the Company's successful affordability strategy and diverse product offering.

Unit case volume in the Europe, Eurasia and Middle East operating segment increased by 5 percent in 2003 compared to 2002. The Italy and Alpine Division grew unit case volume by 11 percent, led by Italy where the Company focused on building the immediate consumption business by revitalizing brand Coca-Cola. In the Eurasia and Middle East Division, unit case volume increased by 9 percent led by Turkey, where a total beverage strategy has been implemented successfully.

Unit case volume for the Latin America operating segment increased by 4 percent in 2003 compared to 2002. Mexico unit case volume increased by 10 percent during the year, reflecting carbonated soft drink growth of 3 percent, resulting from packaging innovations, new flavor introductions and the effect of the "Real" marketing platform. In Argentina, unit case volume increased by 13 percent during 2003, driven by Trademark Coca-Cola increasing by 19 percent. In Brazil, unit case volume declined by 6 percent during the year as a result of both weak economic conditions and the greater focus on balancing volume growth with margin expansion.

Liquidity, Capital Resources and Financial Position

We believe our ability to generate cash from operations is one of our fundamental financial strengths. We expect cash flows from operations to be strong in 2005 and in future years. For the five-year period from 2005 through 2009, we currently estimate that cumulative net cash provided by operating activities will be in excess of \$30 billion. Accordingly, our Company expects to meet all our financial commitments and operating needs during this time frame. We expect to use cash generated from operating activities primarily for dividends, share repurchases, acquisitions and aggregate contractual obligations.

Cash Flows from Operating Activities and Investing Activities

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

Year Ended December 31,	2004	2003	2002
Net cash provided by operating activities	\$ 5,968	\$ 5,456	\$ 4,742
Cash flows (used in) provided by investing activities:			
Acquisitions and investments, principally trademarks and bottling companies	\$ (267)	\$ (359)	\$ (544)
Purchases of investments and other assets	(46)	(177)	(141)
Proceeds from disposals of investments and other assets	161	147	243
Purchases of property, plant and equipment	(755)	(812)	(851)
Proceeds from disposals of property, plant and equipment	341	87	69
Other investing activities	63	178	159
Net cash used in investing activities	\$ (503)	\$ (936)	\$ (1,065)

Cash flows from operating activities increased by 9 percent for 2004 compared to 2003. The key component was increased profits in 2004 versus 2003. The following items also significantly impacted cash flows provided by operating activities:

- In 2004, net income included noncash charges of approximately \$480 million. Refer to the heading “Other Operating Charges.”
- Funding of our primary qualified U.S. pension plan was approximately \$139 million in 2004 compared to approximately \$166 million in 2003.
- In 2004, payments related to streamlining initiatives of approximately \$157 million impacted cash flows from operations.

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

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

Purchases of property, plant and equipment accounted for the most significant cash outlays for investing activities in each of the three years ended December 31, 2004. Our Company currently estimates that purchases of property, plant and equipment in 2005 will be less than \$1 billion.

Total capital expenditures for property, plant and equipment (including our investments in information technology) and the percentage of such totals by operating segment for 2004, 2003 and 2002 are as follows:

Year Ended December 31,	2004	2003	2002
Capital expenditures (in millions)	\$ 755	\$ 812	\$ 851
North America	32.7%	38.1%	39.2%
Africa	3.7%	1.6%	2.1%
Asia	12.2%	18.2%	24.6%
Europe, Eurasia and Middle East	30.9%	24.4%	19.0%
Latin America	5.0%	4.3%	4.3%
Corporate	15.5%	13.4%	10.8%

In 2004, proceeds from disposals of property, plant and equipment of approximately \$341 million related primarily to cash received from the sale of production assets in Japan. Refer to Note 2.

Acquisitions and investments represented the next most significant investing activity, accounting for \$267 million in 2004, \$359 million in 2003 and \$544 million in 2002. In 2004, cash payments for our acquisition items related primarily to the purchase of trademarks in Latin America.

In 2003, our single largest acquisition requiring the use of cash was the purchase of a 100 percent ownership interest in Truesdale Packaging Company LLC (“Truesdale”) from CCE for cash consideration of approximately \$58 million. Truesdale owns a noncarbonated beverage production facility. In 2003, acquisitions of intangible assets totaled approximately \$142 million. Of this amount, approximately \$88 million related to the Company’s acquisition of certain intangible assets with indefinite lives, primarily trademarks and brands in various parts of

the world. None of these trademarks and brands was considered individually significant. Additionally, the Company acquired certain brands and related contractual rights from Panamco valued at \$54 million in the Latin America operating segment with an estimated useful life of 10 years.

In 2002, our Company expended cash of approximately \$328 million for acquisitions of our interests in CBC, a publicly traded Philippine beverage company, and CCDA. Refer to Note 18.

In July 2003, we made a convertible loan of approximately \$133 million to The Coca-Cola Bottling Company of Egypt (“TCCBCE”). The loan is convertible into preferred shares of TCCBCE upon receipt of governmental approvals. Additionally, upon certain defaults under either the loan agreement or the terms of the preferred shares, we have the ability to convert the loan or the preferred shares into common shares. At December 31, 2003, our Company owned approximately 42 percent of the common shares of TCCBCE. The Company consolidated TCCBCE under Interpretation 46 effective March 31, 2004. Refer to Note 1.

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

Cash Flows from Financing Activities

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

Year Ended December 31,	2004	2003	2002
Cash flows provided by (used in) financing activities:			
Issuances of debt	\$ 3,030	\$ 1,026	\$ 1,622
Payments of debt	(1,316)	(1,119)	(2,378)
Issuances of stock	193	98	107
Purchases of stock for treasury	(1,739)	(1,440)	(691)
Dividends	(2,429)	(2,166)	(1,987)
Net cash used in financing activities	\$ (2,261)	\$ (3,601)	\$ (3,327)

Issuances and payments of debt included both short-term and long-term financing activities. On December 31, 2004, we had \$1,614 million in lines of credit and other short-term credit facilities available, of which approximately \$296 million was outstanding. This entire \$296 million related to our international operations.

The issuances of debt in 2004 primarily included approximately \$2,109 million of net issuances of commercial paper with maturities of 90 days or less and approximately \$818 million of issuances of commercial paper with maturities of more than 90 days. The payments of debt in 2004 primarily included approximately \$927 million related to commercial paper with maturities of more than 90 days and \$367 million of long-term debt. Our Company’s total net increase in debt was primarily due to meeting our short-term cash needs in the United States, as a majority of our cash is currently being held in locations outside of the United States. Refer to the heading “Operations Review—Interest Income and Interest Expense.”

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

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

During 2004, 2003 and 2002, the Company repurchased common stock under the 1996 Plan. As strong cash flows are expected to continue in the future, the Company currently expects to increase its 2005 share repurchase levels to at least \$2 billion. Refer to the heading “Financial Strategies and Risk Management.”

Dividends have increased every year for each of the last 43 years, and we believe that for the foreseeable future, our Board of Directors intends to increase our dividends.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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

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

The following discussion addresses each of the above items for our Company. On December 31, 2004, our Company was contingently liable for guarantees of indebtedness owed by third parties in the amount of \$257 million. Management concluded that the likelihood of any material amounts being paid by our Company is not probable. As of December 31, 2004, we were not directly liable for the debt of any unconsolidated entity, and we did not have any retained or contingent interest in assets as defined above. Additionally, our Company recognizes all derivative instruments as either assets or liabilities at fair value in our consolidated balance sheets. Refer to Notes 10 and 11.

In December 2003, we granted a \$250 million standby line-of-credit to Coca-Cola FEMSA with normal market terms. As of December 31, 2004, no amounts have been drawn against this line-of-credit. This standby letter of credit expires in December 2006.

Our Company has equity ownership interests in bottlers that we account for under the equity method of accounting. For certain entities, primarily bottlers, our Company holds variable interests, such as providing financing and guarantees, in addition to our equity investments. The results of those entities in which our Company holds a variable interest, and where we determined that our Company is the primary beneficiary, have been consolidated as of March 31, 2004. Our Company’s investment, plus any loans and guarantees, related to these variable interest entities totaled approximately \$313 million at December 31, 2004, representing our maximum exposure to loss.

Aggregate Contractual Obligations. As of December 31, 2004, the Company's contractual obligations, including payments due by period, are as follows (in millions):

	Payments Due by Period				
	Total	2005	2006-2007	2008-2009	2010 and Thereafter
Short-term loans and notes payable ¹ :					
Commercial paper borrowings	\$ 4,235	\$ 4,235	\$ —	\$ —	\$ —
Lines of credit and other short-term borrowings	296	296	—	—	—
Current maturities of long-term debt ²	1,490	1,490	—	—	—
Long-term debt ²	1,157	—	64	413	680
Estimated interest payments ³	1,114	99	129	126	760
Marketing and other commitments ⁴	2,779	899	759	452	669
Purchase commitments ⁵	5,847	1,567	1,063	695	2,522
Other long-term liabilities:					
Liability to CCEAG shareowners ⁶	1,124	36	1,088	—	—
Miscellaneous	32	—	32	—	—
Total contractual obligations	\$ 18,074	\$ 8,622	\$ 3,135	\$ 1,686	\$ 4,631

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

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

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

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

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

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

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the total accrued benefit liability for pension and other postretirement benefit plans recognized as of December 31, 2004 was \$1,205 million. Refer to Note 14. This accrued liability is included in the consolidated balance sheet line item other liabilities. This amount is impacted by, among other items, funding levels, changes in plan demographics and assumptions, and investment return on plan assets. Because the accrued liability does not represent expected liquidity needs, we did not include this amount in the contractual obligations table.

We fund our U.S. qualified pension plans in accordance with Employee Retirement Income Security Act regulations for the minimum annual required contribution and in accordance with Internal Revenue Service regulations for the maximum annual allowable tax deduction. The minimum required contribution for our primary qualified U.S. pension plan for the 2005 plan year is \$0 and is anticipated to remain \$0 for at least the next several years due to large contributions made to the plan over the past four years. Therefore, we did not include any amounts as a contractual obligation in the above table. We do however, anticipate contributing up to the maximum deductible amount to the primary U.S. qualified pension plan in 2005, which is estimated to be approximately \$59 million. Furthermore, we expect to contribute up to \$9 million to the U.S. postretirement health care benefit plan during 2005. We generally expect to fund all future contributions with cash flows from operations.

Our international pension plans are funded in accordance with local laws and income tax regulations. We do not expect contributions to these plans to be material in 2005 or thereafter. Therefore, no amounts have been included in the table above.

As of December 31, 2004, the projected benefit obligation of the U.S. qualified pension plans was \$1,458 million, and the fair value of plan assets was \$1,729 million. As of December 31, 2004, the projected benefit obligation of all pension plans other than the U.S. qualified pension plans was \$1,342 million, and the fair value of all other pension plan assets was \$668 million. The majority of this underfunding is attributable to an international pension plan for certain non-U.S. employees that is unfunded due to tax law restrictions, as well as our unfunded U.S. nonqualified pension plans. These U.S. nonqualified pension plans provide, for certain members of management, benefits that are not permitted to be funded through a qualified plan because of limits imposed by the Internal Revenue Code. Disclosure of amounts in the above table regarding expected benefit payments for our unfunded pension plans and our other postretirement benefit plans cannot be properly reflected for 2010 and thereafter due to the ongoing nature of the obligations of these plans. However, in order to inform the reader about expected benefit payments for these plans over the next several years, we anticipate annual benefit payments to be in the range of approximately \$50 million to \$60 million in 2005 and remain at or near this annual level for the next several years.

Deferred income tax liabilities as of December 31, 2004 were \$450 million. Refer to Note 15. This amount is not included in the total contractual obligations table because we believe this presentation would not be meaningful. Deferred income tax liabilities are calculated based on temporary differences between the tax basis of assets and liabilities and their book basis, which will result in taxable amounts in future years when the book basis is settled. The results of these calculations do not have any connection with the amount of cash taxes to be paid in any future periods. As a result, scheduling deferred income tax liabilities as payments due by period could be misleading because this scheduling would not relate to liquidity needs.

Minority interests of \$213 million as of December 31, 2004 for consolidated entities in which we do not have a 100 percent ownership interest were recorded in the consolidated balance sheet line item other liabilities. Such minority interests are not liabilities requiring the use of cash or other resources; therefore, this amount is excluded from the contractual obligations table.

Exchange

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

We use 47 functional currencies. Due to our global operations, weaknesses in some of these currencies are often offset by strengths in others. In 2004, 2003 and 2002, the weighted-average exchange rates for foreign

currencies in which the Company conducts operations (all operating currencies), and for certain individual currencies, strengthened (weakened) against the U.S. dollar as follows:

Year Ended December 31,	2004	2003	2002
All operating currencies	6 %	8 %	(3)%
Australian dollar	13 %	20 %	5 %
British pound	12 %	8 %	5 %
Euro	9 %	21 %	5 %
Japanese yen	7 %	8 %	(3)%
Mexican peso	(5)%	(11)%	(3)%
South African rand	18 %	41 %	(20)%

These percentages do not include the effects of our hedging activities and, therefore, do not reflect the actual impact of fluctuations in exchange rates on our operating results. Our foreign currency management program is designed to mitigate, over time, a portion of the impact of exchange rates on net income and earnings per share. The total currency impact on operating income, including the effect of our hedging activities, was an increase of approximately 8 percent and 2 percent in 2004 and 2003, respectively. The impact of a stronger U.S. dollar decreased our operating income by approximately 3 percent in 2002. In 2005, the Company expects to receive a minimal benefit from currency exchange fluctuations.

Exchange gains (losses)—net amounted to \$(39) million in 2004, \$(76) million in 2003 and \$(118) million in 2002 and were recorded in other income (loss)—net in our consolidated statements of income. Exchange gains (losses)—net include the remeasurement of monetary assets and liabilities from certain currencies into functional currencies and the costs of hedging certain exposures of our consolidated balance sheets.

Refer to Note 10.

Overview of Financial Position

Our consolidated balance sheet as of December 31, 2004, compared to our consolidated balance sheet as of December 31, 2003, was impacted by the following:

- The increase in cash and cash equivalents of \$3,345 million was due primarily to net cash provided by operating activities of \$5,968 million in 2004. A significant portion of this cash was generated in locations outside the United States and the majority of our cash balances are held in locations outside the United States. As a result of the Jobs Creation Act, the Company has elected to maintain significant cash balances at its international locations (principally in Ireland) while the Company evaluates the potential impact of the tax legislation. Refer to Note 15.
- The increase in loans and notes payable of \$1,948 million was due to the issuance of commercial paper during 2004 to meet short-term cash needs in the United States, including the quarterly dividend payments and repurchases of common stock.
- The increase in our equity method investments in 2004 of \$673 million was primarily due to the impact of the strength in most key currencies versus the U.S. dollar and an increase of 2004 equity income, net of dividends. Refer to Note 2.
- The increase in buildings and improvements of approximately \$238 million and machinery and equipment of approximately \$178 million was primarily due to positive currency translation adjustments, offset by the sale of production assets in Japan with a carrying value of \$271 million. Refer to Note 2.
- The overall increase in total assets as of December 31, 2004, compared to December 31, 2003, was primarily related to the increase in cash and cash equivalents mentioned above, which impacted the Corporate operating segment, and the impact of the strength in most key currencies versus the U.S.

dollar, especially a stronger euro (that impacted our Europe, Eurasia and Middle East operating segment) and a stronger Japanese yen (that impacted our Asia operating segment), partially offset by \$480 million primarily related to impairment charges for franchise rights and manufacturing investments and the sale of production assets in Japan. Refer to the heading “Other Operating Charges” for a discussion of the impairment charges.

Impact of Inflation and Changing Prices

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

Reconciliation of Non-GAAP Financial Measures

The MD&A includes certain performance measures and ratios that may be considered “non-GAAP financial measures” under SEC rules and regulations. Management believes that these financial measures provide investors and analysts useful additional insight into our Company’s financial position and performance. Management also uses these financial measures to evaluate the Company’s performance and to make certain decisions relating to our Company’s optimal capital structure and allocation of resources.

Non-GAAP financial measures should not be considered substitutes for performance measures presented in our consolidated financial statements in accordance with GAAP. In addition, we caution that the methodologies for the calculation of non-GAAP financial measures may vary from company to company and, therefore, non-GAAP financial measures we present may not be comparable to similarly-named non-GAAP financial measures reported by other companies.

The tables below reconcile the following financial measures included, or used in the calculation of ratios included, in the MD&A that may be considered non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP: adjusted net income, total debt, total capital, net debt, net capital, average total capital, average shareowners’ equity, adjusted net income before taxes and total interest expense.

Return on Average Total Capital

As of or for the year ended December 31,

	2004	2003	2002
(In millions except percentages)			
Net income before cumulative effect of accounting change	\$ 4,847	\$ 4,347	\$ 3,976
Add: Interest expense	196	178	199
Less: Effective tax rate benefit of interest expense	(43)	(37)	(55)
Adjusted net income	\$ 5,000	\$ 4,488	\$ 4,120
Loans and notes payable at end of prior period	\$ 2,583	\$ 2,475	\$ 3,743
Current maturities of long-term debt at end of prior period	323	180	156
Long-term debt at end of prior period	2,517	2,701	1,219
Total debt at end of prior period	\$ 5,423	\$ 5,356	\$ 5,118
Shareowners’ equity at end of prior period	14,090	11,800	11,366
Total capital at end of prior period	\$ 19,513	\$ 17,156	\$ 16,484
Loans and notes payable at end of period	\$ 4,531	\$ 2,583	\$ 2,475
Current maturities of long-term debt at end of period	1,490	323	180
Long-term debt at end of period	1,157	2,517	2,701
Total debt at end of period	\$ 7,178	\$ 5,423	\$ 5,356
Shareowners’ equity at end of period	15,935	14,090	11,800
Total capital at end of period	\$ 23,113	\$ 19,513	\$ 17,156
Average total capital ¹	\$ 21,313	\$ 18,335	\$ 16,820
Return on average total capital ²	23.5%	24.5%	24.5%

¹ The arithmetic mean of total capital at the end of the prior and current periods.

² Adjusted net income divided by average total capital.

Return on Average Shareowners' Equity

As of or for the year ended December 31,	2004	2003	2002
(In millions except percentages)			
Net income before cumulative effect of accounting change	\$ 4,847	\$ 4,347	\$ 3,976
Shareowners' equity at end of prior period	\$14,090	\$11,800	\$11,366
Shareowners' equity at end of period	15,935	14,090	11,800
Average shareowners' equity ¹	\$ 15,013	\$ 12,945	\$ 11,583
Return on average shareowners' equity ²	32.3%	33.6%	34.3%

¹ The arithmetic mean of shareowners' equity at the end of the prior and current periods.

² Net income before cumulative effect of accounting change divided by average shareowners' equity.

Total Debt-to-Total Capital and Net Debt-to-Net Capital Ratios

December 31,	2004	2003	2002
(In millions except percentages)			
Total debt at end of period ¹	\$ 7,178	\$ 5,423	\$ 5,356
Less: Cash and cash equivalents	(6,707)	(3,362)	(2,260)
Marketable securities	(61)	(120)	(85)
Net debt	\$ 410	\$ 1,941	\$ 3,011
Total capital at end of period ¹	\$ 23,113	\$ 19,513	\$ 17,156
Less: Cash and cash equivalents	(6,707)	(3,362)	(2,260)
Marketable securities	(61)	(120)	(85)
Net capital	\$ 16,345	\$ 16,031	\$ 14,811
Total debt-to-total capital ratio	31.1%	27.8%	31.2%
Net debt-to-net capital ratio	2.5%	12.1%	20.3%

¹ Refer to "Return on Average Total Capital" table above for reconciliation.

Interest Coverage Ratio

Year ended December 31,	2004	2003	2002
(In millions except ratios)			
Income before income taxes and cumulative effect of accounting change	\$ 6,222	\$ 5,495	\$ 5,499
Add: Interest expense	196	178	199
Capitalized interest	1	1	1
Adjusted net income before taxes	\$ 6,419	\$ 5,674	\$ 5,699
Interest expense	\$ 196	\$ 178	\$ 199
Add: Capitalized interest	1	1	1
Total interest expense	\$ 197	\$ 179	\$ 200
Interest coverage ratio ¹	33x	32x	28x

¹ Adjusted net income before taxes divided by total interest expense.

Forward-Looking Statements

Certain written and oral statements made by our Company and subsidiaries or with the approval of an authorized executive officer of our Company may constitute "forward-looking statements" as defined under the Private Securities Litigation Reform Act of 1995, including statements made in this report and other filings with the Securities and Exchange Commission. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are

not historical in nature. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future—including statements relating to volume growth, share of sales and earnings per share growth and statements expressing general optimism about future operating results—are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company’s historical experience and our present expectations or projections. As and when made, management believes that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

- Economic and political conditions, especially in international markets, including civil unrest, product boycotts, governmental changes and restrictions on the ability to transfer capital across borders. Without limiting the preceding sentence, the current unstable economic and political conditions and civil unrest in the Middle East, North Korea, India or elsewhere, the unstable situation in Iraq, or the continuation or escalation of terrorism could have adverse impacts on our Company’s business results or financial condition.
- Changes in the nonalcoholic beverages business environment. These include, without limitation, changes in consumer preferences, including changes based on health and nutrition considerations and obesity concerns, shifting consumer developments and needs, changes in consumer lifestyles and increased consumer information; competitive product and pricing pressures; and our ability to gain or maintain share of sales in the global market as a result of actions by competitors. Factors such as these could impact our earnings, share of sales and volume growth.
- Foreign currency rate fluctuations, interest rate fluctuations and other capital market conditions. Most of our exposures to capital and financial markets conditions, including exposures to foreign currency and interest rates fluctuations, are managed on a consolidated basis, which allows us to net certain exposures and thus take advantage of any natural offsets. We use derivative financial instruments to reduce our net exposure to financial risks. There can be no assurance, however, that our financial risk management program will be successful in reducing the risks inherent in exposures to capital and financial markets.
- Beverage container-related deposit, recycling, eco-tax and/or product stewardship laws and regulations, if they are adopted and implemented at a large scale in any of the markets in which we operate, on a cumulative basis may have a materially adverse effect on our results of operations in future periods.
- Significant additional labeling or warning requirements, if they become applicable to one or more of our major products under current or future environmental or health laws or regulation, may inhibit sales of such major product or products and may materially harm our business.
- Changes in commercial or market practices and business models within the European Union as a result of changes to, or evolving interpretations of, European Commission competition laws and regulations, as well as commitments or undertakings we made or may make in the future in connection with European Commission inquiries or investigations, may have a material adverse effect on our results of operations in Europe.
- The uncertainties of litigation and other legal proceedings.
- Adverse weather conditions, which could reduce demand for Company products.
- The effectiveness of our advertising, marketing and promotional programs.

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

The foregoing list of important factors is not exclusive.

Additional Information

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