

## FORWARD-LOOKING STATEMENTS

*This report contains information that may constitute “forward-looking statements.” 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. 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 because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, 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. These risks and uncertainties include, but are not limited to, those described in Part I, “Item 1A. Risk Factors” and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission.*

## PART I

### ITEM 1. BUSINESS

#### General

The Coca-Cola Company is the largest manufacturer, distributor and marketer of nonalcoholic beverage concentrates and syrups in the world. Finished beverage products bearing our trademarks, sold in the United States since 1886, are now sold in more than 200 countries and include the leading soft drink products in most of these countries. In this report, the terms “Company,” “we,” “us” or “our” mean The Coca-Cola Company and all subsidiaries included in our consolidated financial statements.

Our business is nonalcoholic beverages—principally carbonated soft drinks, but also a variety of noncarbonated beverages. We manufacture beverage concentrates and syrups, which we sell to bottling and canning operations, fountain wholesalers and some fountain retailers, as well as some finished beverages, which we sell primarily to distributors. We also produce, market and distribute certain juice and juice drinks and certain water products. In addition, we have ownership interests in numerous bottling and canning operations, although most of these operations are independently owned and managed.

We were incorporated in September 1919 under the laws of the State of Delaware and succeeded to the business of a Georgia corporation with the same name that had been organized in 1892.

Our Company is one of numerous competitors in the commercial beverages market. Of the approximately 50 billion beverage servings of all types consumed worldwide every day, beverages bearing trademarks owned by or licensed to us account for more than 1.3 billion.

We believe that our success depends on our ability to connect with consumers by providing them with a wide variety of choices to meet their desires, needs and lifestyle choices. Our success further depends on the ability of our people to execute effectively, every day.

Our goal is to use our Company’s assets—our brands, financial strength, unrivaled distribution system, and the strong commitment of management and employees—to become more competitive and to accelerate growth in a manner that creates value for our shareowners.

## **Operating Segments**

The Company's operating structure is the basis for our Company's internal financial reporting. As of December 31, 2005, our operating structure included the following operating segments, the first six of which are sometimes referred to as "operating groups" or "groups."

- North America
- Africa
- East, South Asia and Pacific Rim
- European Union
- Latin America
- North Asia, Eurasia and Middle East
- Corporate

Our operating structure as of December 31, 2005, reflected the changes we made during the second quarter of 2005, when we replaced our then existing Europe, Eurasia and Middle East operating segment and Asia operating segment with three new operating segments: European Union; East, South Asia and Pacific Rim; and North Asia, Eurasia and Middle East. The North America operating segment included the United States, Canada and Puerto Rico. The European Union operating segment included our operations in all current member states of the European Union as well as the European Free Trade Association countries, Switzerland, Israel and the Palestinian Territories, and Greenland. The North Asia, Eurasia and Middle East operating segment included our operations in China, Japan, Eurasia, the Middle East (other than Israel and the Palestinian Territories), Russia, Ukraine and Belarus, and those in other European countries not included in the European Union operating segment. The East, South Asia and Pacific Rim operating segment included our operations in India, the Philippines, Southeast and West Asia, and South Pacific and Korea.

In the first quarter of 2006, the Company made certain changes to its operating structure primarily to establish a new, separate internal organization for its consolidated bottling operations and its unconsolidated bottling investments. This new structure will result in the reporting of a separate operating segment, along with the six existing geographic operating segments and Corporate, beginning with the first quarter of 2006.

Except to the extent that differences between operating segments are material to an understanding of our business taken as a whole, the description of our business in this report is presented on a consolidated basis.

For financial information about our operating segments and geographic areas, refer to Note 5 and Note 20 of Notes to Consolidated Financial Statements set forth in Part II, "Item 8. Financial Statements and Supplementary Data" of this report, incorporated herein by reference. For certain risks attendant to our non-U.S. operations, refer to "Item 1A. Risk Factors" below.

## **Products and Distribution**

Our Company manufactures and sells beverage concentrates, sometimes referred to as "beverage bases," and syrups, including fountain syrups. We also manufacture and sell some finished beverages, both carbonated and noncarbonated, including certain juice and juice-drink products; sports drinks; ready-to-drink coffees and teas; and water products.

As used in this report:

- "concentrates" means flavoring ingredients and, depending on the product, sweeteners used to prepare beverage syrups or finished beverages;

- “syrups” means the beverage ingredients produced by combining concentrates and, depending on the product, sweeteners and added water;
- “fountain syrups” means syrups that are sold to fountain retailers, such as restaurants, that use dispensing equipment to mix the syrups with carbonated or noncarbonated water at the time of purchase to produce finished beverages that are served in cups or glasses for immediate consumption;
- “soft drinks” means nonalcoholic carbonated beverages containing flavorings and sweeteners, excluding, among others, waters and flavored waters, juice and juice drinks, sports drinks, teas and coffees;
- “noncarbonated beverages” means nonalcoholic beverages without carbonation including, but not limited to, waters and flavored waters, juice and juice drinks, sports drinks, teas and coffees;
- “Company Trademark Beverages” means beverages bearing our trademarks and certain other beverage products licensed to us for which we provide marketing support and from the sale of which we derive net revenues; and
- additional terms used in this report are defined in the Glossary beginning on page 122.

We sell the concentrates and syrups for bottled and canned beverages to authorized bottling and canning operations. In addition to concentrates and syrups for soft-drink products and flavored noncarbonated beverages, we also sell concentrates for purified water products such as Dasani to authorized bottling operations.

Authorized bottlers or canners either combine our syrups with carbonated water or combine our concentrates with sweeteners (depending on the product), water and carbonated water to produce finished soft drinks. The finished soft drinks are packaged in authorized containers bearing our trademarks—such as cans and refillable and nonrefillable glass and plastic bottles (“bottle/can products”)—and are then sold to retailers (“bottle/can retailers”) or, in some cases, wholesalers.

For our fountain products in the United States, we manufacture fountain syrups and sell them to authorized fountain wholesalers and some fountain retailers. The wholesalers are authorized to sell the Company’s fountain syrups by a nonexclusive appointment from us that neither restricts us in setting the prices at which we sell fountain syrups to the wholesalers, nor restricts the territory in which the wholesalers may resell in the United States. Outside the United States, fountain syrups typically are manufactured by authorized bottlers from concentrates sold to them by the Company. The bottlers then typically sell the fountain syrups to wholesalers or directly to fountain retailers.

Finished beverages manufactured by us include a variety of carbonated and noncarbonated beverages. We sell most of these finished beverages and certain water products to authorized bottlers or distributors, who in turn sell these products to retailers or, in some cases, wholesalers. We manufacture and sell juice and juice-drink products and certain water products to retailers and wholesalers in the United States and numerous other countries both directly and through a network of business partners, including certain Coca-Cola bottlers.

Our beverage products include Coca-Cola, Coca-Cola Classic, caffeine free Coca-Cola, caffeine free Coca-Cola Classic, Diet Coke (sold under the trademark Coca-Cola Light in many countries other than the United States), caffeine free Diet Coke, Diet Coke Sweetened with Splenda, Coca-Cola with Lime, Diet Coke with Lime, Cherry Coke, Diet Cherry Coke, Coca-Cola C2, Coca-Cola Zero, Fanta brand soft drinks, Sprite, Diet Sprite Zero/Sprite Zero (sold under the trademark Sprite Light in many countries other than the United States), Sprite Remix, Pibb Xtra, Mello Yello, Tab, Fresca brand soft drinks, Barq’s, Powerade, Minute Maid brand soft drinks, Aquarius, Sokenbicha, Ciel, Bonaqa/Bonaqua, Dasani, Dasani brand flavored waters, Lift, Thums Up, Kinley, Pop Cola, Eight O’Clock, Qoo, Full Throttle, DOBRIY, Rich, Nico and other products developed for specific countries (including Georgia brand ready-to-drink coffees). In many countries (excluding the United States, among others), our Company’s beverage products also include Schweppes, Canada Dry, Dr Pepper and Crush. Our Company produces, distributes and markets juice and juice-drink products including

Minute Maid juice and juice drinks, Simply Orange orange juice, Odwalla nutritional juices, Five Alive refreshment beverages, Bacardi tropical fruit mixers concentrate (manufactured and marketed under a license from Bacardi & Company Limited) and Hi-C ready-to-serve fruit drinks. We have a license to manufacture and sell concentrates for Seagram's mixers, a line of carbonated drinks, in the United States and certain other countries. Our Company is the exclusive master distributor of Evian bottled water in the United States and Canada and of Rockstar, an energy drink, in most of the United States and in Canada. Beverage Partners Worldwide ("BPW"), the Company's 50 percent-owned joint venture with Nestlé S.A. ("Nestlé"), markets ready-to-drink teas and coffees in certain countries.

Consumer demand determines the optimal menu of Company product offerings. Consumer demand can vary from one locale to another and can change over time within a single locale. Employing our business strategy, and with special focus on core brands, our Company seeks to build its existing brands and, at the same time, to broaden its historical family of brands, products and services in order to create and satisfy consumer demand locale by locale.

Our Company introduced a variety of new brands, brand extensions and new beverage products in 2005. Among numerous examples, we introduced Nanairo-Acha in Japan; Bonaqua BonActive in Hong Kong; and new Fanta flavors including strawberry, pineapple and apple in Angola, Ghana and Nigeria, respectively. In North America, we launched Coca-Cola Zero, a new calorie-free cola, Diet Coke Sweetened with Splenda brand sweetener, Sugar Free Full Throttle; and Powerade Option, a new low-calorie, low-carbohydrate sports drinks. We also rebranded our Fresca line and added two new calorie-free extensions—Sparkling Peach Citrus Fresca and Sparkling Black Cherry Citrus Fresca. In Thailand and Vietnam we launched Minute Maid juice and juice drinks under the Splash brand name. We extended the rebranding of Diet Sprite to Diet Sprite Zero/Sprite Zero, which began in Greece in 2002, to now include a total of 77 countries, including the United States. In 2006, we launched Black Cherry Vanilla Coca-Cola, Diet Black Cherry Vanilla Coca-Cola, Full Throttle Fury, Tab Energy and Coca-Cola Blak, a new Coca-Cola and coffee fusion beverage designed to appeal to adult consumers, in France, and we plan to introduce this beverage in the United States later in 2006.

Our Company measures the volume of products sold in two ways: (1) unit cases of finished products and (2) gallons. As used in this report, "unit case" means a unit of measurement equal to 192 U.S. fluid ounces of finished beverage (24 eight-ounce servings); and "unit case volume" means the number of unit cases (or unit case equivalents) of Company beverage products directly or indirectly sold by the Coca-Cola bottling system to customers. Unit case volume primarily consists of beverage products bearing Company trademarks. Also included in unit case volume are certain products licensed to, or distributed by, our Company, and brands owned by Coca-Cola system bottlers for which our Company provides marketing support and from the sale of which it derives income. Such products licensed to, or distributed by, our Company or owned by Coca-Cola system bottlers account for a minimal portion of total unit case volume. In addition, unit case volume includes sales by joint ventures in which the Company is a partner. 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 unit case volume numbers used in this report are based on estimates received by the Company from its bottling partners and distributors. As used in this report, "gallon" means 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) sold by our Company to its bottling partners or other customers. Most of our revenues are based on gallon sales, a primarily "wholesale" activity. Unit case volume and gallon sales growth rates are not necessarily equal during any given period. Items such as seasonality, bottlers' inventory practices, supply point changes, timing of price increases, new product introductions and changes in product mix can impact unit case volume and gallon sales and can create differences between unit case volume and gallon sales growth rates.

In 2005, concentrates and syrups for beverages bearing the trademark “Coca-Cola” or including the trademark “Coke” (“Coca-Cola Trademark Beverages”) accounted for approximately 55 percent of the Company’s total gallon sales.

In 2005, gallon sales in the United States (“U.S. gallon sales”) represented approximately 27 percent of the Company’s worldwide gallon sales. Approximately 58 percent of U.S. gallon sales for 2005 was attributable to sales of beverage concentrates and syrups to 78 authorized bottler ownership groups in 393 licensed territories. Those bottlers prepare and sell finished beverages bearing our trademarks for the food store and vending machine distribution channels and for other distribution channels supplying products for home and immediate consumption. Approximately 33 percent of 2005 U.S. gallon sales was attributable to fountain syrups sold to fountain retailers and to 522 authorized fountain wholesalers, some of which are authorized bottlers. The remaining approximately 9 percent of 2005 U.S. gallon sales was attributable to sales by the Company of finished beverages, including juice and juice-drink products and certain water products. Coca-Cola Enterprises Inc., including its bottling subsidiaries and divisions (“CCE”), accounted for approximately 50 percent of the Company’s U.S. gallon sales in 2005. At December 31, 2005, our Company held an ownership interest of approximately 36 percent in CCE, which is the world’s largest bottler of Company Trademark Beverages.

In 2005, gallon sales outside the United States represented approximately 73 percent of the Company’s worldwide gallon sales. The countries outside the United States in which our gallon sales were the largest in 2005 were Mexico, Brazil, China and Japan, which together accounted for approximately 27 percent of our worldwide gallon sales. Approximately 91 percent of non-U.S. unit case volume for 2005 was attributable to sales of beverage concentrates and syrups to authorized bottlers together with sales by the Company of finished beverages other than juice and juice-drink products, in 511 licensed territories. Approximately 5 percent of 2005 non-U.S. unit case volume was attributable to fountain syrups. The remaining approximately 4 percent of 2005 non-U.S. unit case volume was attributable to juice and juice-drink products.

In addition to conducting our own independent advertising and marketing activities, we may provide promotional and marketing services or funds to our bottlers. In most cases, we do this on a discretionary basis under the terms of commitment letters or agreements, even though we are not obligated to do so under the terms of the bottling or distribution agreements between our Company and the bottlers. Also, on a discretionary basis in most cases, our Company may develop and introduce new products, packages and equipment to assist its bottlers. Likewise, in many instances, we provide promotional and marketing services and/or funds and/or dispensing equipment and repair services to fountain and bottle/can retailers, typically pursuant to marketing agreements. The aggregate amount of funds provided by our Company to bottlers, resellers or other customers of our Company’s products, principally for participation in promotional and marketing programs was approximately \$3.7 billion in 2005.

#### ***Bottler’s Agreements and Distribution Agreements***

Most of our products are manufactured and sold by our bottling partners. We typically sell concentrates and syrups to our bottling partners who convert them into finished packaged products which they sell to distributors and other customers. Separate contracts (“Bottler’s Agreements”) exist between our Company and each of our bottling partners regarding the manufacture and sale of Company products. Subject to specified terms and conditions and certain variations, the Bottler’s Agreements generally authorize the bottlers to prepare specified Company Trademark Beverages, to package the same in authorized containers, and to distribute and sell the same in (but, subject to applicable local law, generally only in) an identified territory. The bottler is obligated to purchase its entire requirement of concentrates or syrups for the designated Company Trademark Beverages from the Company or Company-authorized suppliers. We typically agree to refrain from selling or distributing, or from authorizing third parties to sell or distribute, the designated Company Trademark Beverages throughout the identified territory in the particular authorized containers; however, we typically reserve for ourselves or our designee the right (1) to prepare and package such beverages in such containers in the territory for sale outside

the territory, and (2) to prepare, package, distribute and sell such beverages in the territory, in any other manner or form. Territorial restrictions on bottlers vary in some cases in accordance with local law.

The Bottler's Agreements between us and our authorized bottlers in the United States differ in certain respects from those in the other countries in which Company Trademark Beverages are sold. As further discussed below, the principal differences involve the duration of the agreements; the inclusion or exclusion of canned beverage production rights; the inclusion or exclusion of authorizations to manufacture and distribute fountain syrups; in some cases, the degree of flexibility on the part of the Company to determine the pricing of syrups and concentrates; and the extent, if any, of the Company's obligation to provide marketing support.

#### *Outside the United States*

The Bottler's Agreements between us and our authorized bottlers outside the United States generally are of stated duration, subject in some cases to possible extensions or renewals of the term of the contract. Generally, these contracts are subject to termination by the Company following the occurrence of certain designated events. These events include defined events of default and certain changes in ownership or control of the bottler.

In certain parts of the world outside the United States, we have not granted comprehensive beverage production rights to the bottlers. In such instances, we or our authorized suppliers sell Company Trademark Beverages to the bottlers for sale and distribution throughout the designated territory, often on a nonexclusive basis. A majority of the Bottler's Agreements in force between us and bottlers outside the United States authorize the bottlers to manufacture and distribute fountain syrups, usually on a nonexclusive basis.

Our Company generally has complete flexibility to determine the price and other terms of sale of the concentrates and syrups we sell to bottlers outside the United States. In some instances, however, we have agreed or may in the future agree with the bottler with respect to concentrate pricing on a prospective basis for specified time periods. Outside the United States, in most cases, we have no obligation to provide marketing support to the bottlers. Nevertheless, we may, at our discretion, contribute toward bottler expenditures for advertising and marketing. We may also elect to undertake independent or cooperative advertising and marketing activities.

#### *Within the United States*

In the United States, with certain very limited exceptions, the Bottler's Agreements for Coca-Cola Trademark Beverages and other cola-flavored beverages have no stated expiration date. Our standard contracts for other soft-drink flavors and for noncarbonated beverages are of stated duration, subject to bottler renewal rights. The Bottler's Agreements in the United States are subject to termination by the Company for nonperformance or upon the occurrence of certain defined events of default that may vary from contract to contract. The "1987 Contract," described below, is terminable by the Company upon the occurrence of certain events, including:

- the bottler's insolvency, dissolution, receivership or the like;
- any disposition by the bottler or any of its subsidiaries of any voting securities of any bottler subsidiary without the consent of the Company;
- any material breach of any obligation of the bottler under the 1987 Contract; or
- except in the case of certain bottlers, if a person or affiliated group acquires or obtains any right to acquire beneficial ownership of more than 10 percent of any class or series of voting securities of the bottler without authorization by the Company.

Under the terms of the Bottler's Agreements, bottlers in the United States are authorized to manufacture and distribute Company Trademark Beverages in bottles and cans. However, these bottlers generally are not authorized to manufacture fountain syrups. Rather, as described above, our Company manufactures and sells

fountain syrups to authorized fountain wholesalers (including certain authorized bottlers) and some fountain retailers. These wholesalers in turn sell the syrups or deliver them on our behalf to restaurants and other retailers.

In the United States, the form of Bottler's Agreement for cola-flavored soft drinks that covers the largest amount of U.S. gallon sales (the "1987 Contract") gives us complete flexibility to determine the price and other terms of sale of concentrates and syrups for Company Trademark Beverages. In some instances, we have agreed or may in the future agree with the bottler with respect to concentrate pricing on a prospective basis for specified time periods. Bottlers operating under the 1987 Contract accounted for approximately 89 percent of our Company's total U.S. gallon sales for bottled and canned beverages in 2005, excluding direct sales by the Company of juice and juice-drink products and other finished beverages ("U.S. bottle/can gallon sales"). Certain other forms of U.S. Bottler's Agreements, entered into prior to 1987, provide for concentrates or syrups for certain Coca-Cola Trademark Beverages and other cola-flavored Company Trademark Beverages to be priced pursuant to a stated formula. Bottlers accounting for approximately 10 percent of U.S. bottle/can gallon sales in 2005 have contracts for certain Coca-Cola Trademark Beverages and other cola-flavored Company Trademark Beverages with pricing formulas that generally provide for a baseline price. This baseline price may be adjusted periodically by the Company, up to a maximum indexed ceiling price, and is adjusted quarterly based upon changes in certain sugar or sweetener prices, as applicable. Bottlers accounting for the remaining (less than 1 percent) U.S. bottle/can gallon sales in 2005 operate under our oldest form of contract, which provides for a fixed price for Coca-Cola syrup used in bottles and cans. This price is subject to quarterly adjustments to reflect changes in the quoted price of sugar.

We have standard contracts with bottlers in the United States for the sale of concentrates and syrups for non-cola-flavored soft drinks and certain noncarbonated beverages in bottles and cans; and, in certain cases, for the sale of finished noncarbonated beverages in bottles and cans. All of these standard contracts give the Company complete flexibility to determine the price and other terms of sale.

Under the 1987 Contract and most of our other standard soft-drink and noncarbonated beverage contracts with bottlers in the United States, our Company has no obligation to participate with bottlers in expenditures for advertising and marketing. Nevertheless, at our discretion, we may contribute toward such expenditures and undertake independent or cooperative advertising and marketing activities. Some U.S. Bottler's Agreements that predate the 1987 Contract impose certain marketing obligations on us with respect to certain Company Trademark Beverages.

As a practical matter, our Company's ability to exercise its contractual flexibility to determine the price and other terms of sale of its syrups, concentrates and finished beverages under various agreements described above is subject, both outside and within the United States, to competitive market conditions.

### ***Significant Equity Method Investments and Company Bottling Operations***

Our Company maintains business relationships with three types of bottlers:

- bottlers in which the Company has no ownership interest;
- bottlers in which the Company has invested and has a noncontrolling ownership interest; and
- bottlers in which the Company has invested and has a controlling ownership interest.

In 2005, bottling operations in which we had no ownership interest produced and distributed approximately 25 percent of our worldwide unit case volume. We have equity positions in 51 unconsolidated bottling, canning and distribution operations for our products worldwide. These cost or equity method investees produced and distributed approximately 58 percent of our worldwide unit case volume in 2005. Controlled and consolidated bottling operations produced and distributed approximately 7 percent of our worldwide unit case volume in 2005. The remaining approximately 10 percent of our worldwide unit case volume in 2005 was produced and

distributed by our fountain operations plus our juice and juice drink, sports drink and other finished beverage operations.

We make equity investments in selected bottling operations with the intention of maximizing the strength and efficiency of the Coca-Cola system's production, distribution and marketing systems around the world. These investments are intended to result in increases in unit case volume, net revenues and profits at the bottler level, which in turn generate increased gallon sales for our Company's concentrate and syrup business. When this occurs, both we and our bottling partners benefit from long-term growth in volume, improved cash flows and increased shareowner value.

The level of our investment generally depends on the bottler's capital structure and its available resources at the time of the investment. Historically, in certain situations, we have viewed it as advantageous to acquire a controlling interest in a bottling operation, often on a temporary basis. Owning such a controlling interest has allowed us to compensate for limited local resources and has enabled us to help focus the bottler's sales and marketing programs and assist in the development of the bottler's business and information systems and the establishment of appropriate capital structures.

In line with our long-term bottling strategy, we may periodically consider options for reducing our ownership interest in a bottler. One such option is to combine our bottling interests with the bottling interests of others to form strategic business alliances. Another option is to sell our interest in a bottling operation to one of our equity method investee bottlers. In both of these situations, our Company continues to participate in the bottler's results of operations through our share of the strategic business alliances' or equity method investees' earnings or losses.

In cases where our investments in bottlers represent noncontrolling interests, our intention is to provide expertise and resources to strengthen those businesses.

Significant investees in which we have noncontrolling ownership interests include the following:

*Coca-Cola Enterprises Inc.* Our ownership interest in CCE was approximately 36 percent at December 31, 2005. CCE is the world's largest bottler of the Company's beverage products. In 2005, sales of concentrates, syrups and finished products by the Company to CCE were approximately \$5.1 billion. CCE estimates that the territories in which it markets beverage products to retailers (which include portions of 46 states and the District of Columbia in the United States, the United States Virgin Islands, Canada, Great Britain, continental France, the Netherlands, Luxembourg, Belgium and Monaco) contain approximately 78 percent of the United States population, 98 percent of the population of Canada, and 100 percent of the populations of Great Britain, continental France, the Netherlands, Luxembourg, Belgium and Monaco. In 2005, CCE's net operating revenues were approximately \$18.7 billion. Excluding fountain products, in 2005, approximately 62 percent of the unit case volume of CCE consisted of Coca-Cola Trademark Beverages, 31 percent of its unit case volume consisted of other Company Trademark Beverages and 7 percent of its unit case volume consisted of beverage products of other companies.

*Coca-Cola Hellenic Bottling Company S.A. ("Coca-Cola HBC")*. At December 31, 2005, our ownership interest in Coca-Cola HBC was approximately 24 percent. Coca-Cola HBC has bottling and distribution rights, through direct ownership or joint ventures, in Armenia, Austria, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Former Yugoslavian Republic of Macedonia, Greece, Hungary, Italy, Latvia, Lithuania, Moldova, Nigeria, Northern Ireland, Poland, Republic of Ireland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia, Switzerland and Ukraine. Coca-Cola HBC estimates that the territories in which it markets beverage products contain approximately 67 percent of the population of Italy and 100 percent of the populations of the other countries named above in which Coca-Cola HBC has bottling and distribution rights. In 2005, Coca-Cola HBC's net sales of beverage products were approximately \$5.8 billion. In 2005, approximately 46 percent of the unit case volume of Coca-Cola HBC consisted of Coca-Cola Trademark Beverages, approximately 47 percent of its unit case volume consisted of other Company Trademark Beverages

and approximately 7 percent of its unit case volume consisted of beverage products of Coca-Cola HBC or other companies.

*Coca-Cola FEMSA, S.A. de C.V. (“Coca-Cola FEMSA”).* Our ownership interest in Coca-Cola FEMSA was approximately 40 percent at December 31, 2005. Coca-Cola FEMSA is a Mexican holding company with bottling subsidiaries in a substantial part of central Mexico, including Mexico City and southeastern Mexico; greater São Paulo, Campinas, Santos, the state of Matto Grosso do Sul and part of the state of Goias in Brazil; central Guatemala; most of Colombia; all of Costa Rica, Nicaragua, Panama and Venezuela; and greater Buenos Aires, Argentina. Coca-Cola FEMSA estimates that the territories in which it markets beverage products contain approximately 48 percent of the population of Mexico, 16 percent of the population of Brazil, 98 percent of the population of Colombia, 47 percent of the population of Guatemala, 100 percent of the populations of Costa Rica, Nicaragua, Panama and Venezuela and 30 percent of the population of Argentina. In 2005, Coca-Cola FEMSA’s net sales of beverage products were approximately \$4.5 billion. In 2005, approximately 62 percent of the unit case volume of Coca-Cola FEMSA consisted of Coca-Cola Trademark Beverages, 34 percent of its unit case volume consisted of other Company Trademark Beverages and 4 percent of its unit case volume consisted of beverage products of Coca-Cola FEMSA or other companies.

*Coca-Cola Amatil Limited (“Coca-Cola Amatil”).* At December 31, 2005, our Company’s ownership interest in Coca-Cola Amatil was approximately 32 percent. Coca-Cola Amatil has bottling and distribution rights, through direct ownership or joint ventures, in Australia, New Zealand, Fiji, Papua New Guinea, Indonesia and South Korea. Coca-Cola Amatil estimates that the territories in which it markets beverage products contain 100 percent of the populations of Australia, New Zealand, Fiji, South Korea and Papua New Guinea, and 98 percent of the population of Indonesia. In 2005, Coca-Cola Amatil’s net sales of beverage products were approximately \$3.0 billion. In 2005, approximately 51 percent of the unit case volume of Coca-Cola Amatil consisted of Coca-Cola Trademark Beverages, approximately 40 percent of its unit case volume consisted of other Company Trademark Beverages, approximately 8 percent of its unit case volume consisted of beverage products of Coca-Cola Amatil and less than 1 percent of its unit case volume consisted of beverage products of other companies.

*Other Interests.* We own a 50 percent interest in BPW, a joint venture with Nestlé and certain of its subsidiaries that is focused upon the ready-to-drink tea and coffee businesses. BPW had sales in the United States and 65 other countries during the year ended December 31, 2005. BPW serves as the exclusive vehicle through which our Company and Nestlé participate in the ready-to-drink tea and coffee businesses, except in Japan. BPW markets ready-to-drink tea products primarily under the Nestea, Belté, Yang Guang, Nagomi, Heaven and Earth, Funchum, Frestea, Ten Ren, Modern Tea Workshop, Café Zu, Shizen and Tian Tey trademarks, and ready-to-drink coffee products primarily under the Nescafé, Taster’s Choice and Georgia Club trademarks. We also own a 50 percent interest in Multon, a Russian juice business (“Multon”), which we acquired in April 2005 jointly with Coca-Cola HBC. Multon produces and distributes juice products under the DOBRIY, Rich, Nico and other trademarks in Russia, Ukraine and Belarus.

### **Seasonality**

Sales of our ready-to-drink nonalcoholic beverages are somewhat seasonal, with the second and third calendar quarters accounting for the highest sales volumes. The volume of sales in the beverages business may be affected by weather conditions.

### **Competition**

Our Company competes in the nonalcoholic beverages segment of the commercial beverages industry. Based on internally available data and a variety of industry sources, we believe that, in 2005, worldwide sales of Company products accounted for approximately 10 percent of total worldwide sales of nonalcoholic beverage products. The nonalcoholic beverages segment of the commercial beverages industry is highly competitive,

consisting of numerous firms. These include firms that, like our Company, compete in multiple geographic areas as well as firms that are primarily local in operation. Competitive products include carbonated soft drinks; packaged water; juices and nectars; fruit drinks and dilutables (including syrups and powdered drinks); sports and energy drinks; coffee and tea; still drinks and other beverages. Nonalcoholic beverages are sold to consumers in both ready-to-drink and not-ready-to-drink form. In many of the countries in which we do business, including the United States, PepsiCo, Inc. is one of our primary competitors. Other significant competitors include Nestlé, Cadbury Schweppes plc, Groupe Danone and Kraft Foods Inc.

Most of our beverages business currently is in soft drinks, as that term is defined in this report. The soft drink business, which is part of the nonalcoholic beverages segment, is itself highly competitive, and soft drinks face significant competition from other nonalcoholic beverages. Our Company is the leading seller of soft drink concentrates and syrups in the world. Numerous firms, however, compete in that business. These consist of a range of firms, from local to international, that compete against our Company in numerous geographic areas.

Competitive factors impacting our business include pricing, advertising, sales promotion programs, product innovation, increased efficiency in production techniques, the introduction of new packaging, new vending and dispensing equipment, and brand and trademark development and protection.

Our competitive strengths include powerful brands with a high level of consumer acceptance; a worldwide network of bottlers and distributors of Company products; sophisticated marketing capabilities; and a talented group of dedicated employees. Our competitive challenges include strong competition in all geographical regions and, in many countries, a concentrated retail sector with powerful buyers able to freely choose among Company products, products of competitive beverage suppliers and individual retailers' own store-brand beverages.

## **Raw Materials**

The principal raw materials used by our business are nutritive and non-nutritive sweeteners. In the United States, the principal nutritive sweetener is high fructose corn syrup, a form of sugar, which is available from numerous domestic sources and is historically subject to fluctuations in its market price. The principal nutritive sweetener used by our business outside the United States is sucrose, another form of sugar, which is also available from numerous sources and is historically subject to fluctuations in its market price. Our Company generally has not experienced any difficulties in obtaining its requirements for nutritive sweeteners. In the United States, we purchase high fructose corn syrup to meet our and our bottlers' requirements with the assistance of Coca-Cola Bottlers' Sales & Services Company LLC ("CCBSS"). CCBSS is a limited liability company that is owned by authorized Coca-Cola bottlers doing business in the United States. Among other things, CCBSS provides procurement services to our Company for the purchase of various goods and services in the United States, including high fructose corn syrup.

The principal non-nutritive sweeteners we use in our business are aspartame, saccharin, sucralose, acesulfame potassium and cyclamate. Generally, these raw materials are readily available from numerous sources. However, our Company purchases aspartame, an important non-nutritive sweetener that is used alone or in combination with other important non-nutritive sweeteners such as saccharin or acesulfame potassium in our low-calorie soft drink products, primarily from The NutraSweet Company, Holland Sweetener Company and Ajinomoto Co., Inc., which we consider to be our only viable sources for the supply of this product. We currently purchase acesulfame potassium from Nutrinova Nutrition Specialties & Food Ingredients GmbH, which we consider to be our only viable source for the supply of this product. Our Company generally has not experienced any difficulties in obtaining its requirements for non-nutritive sweeteners.

Our Company sells a number of products sweetened with sucralose, a non-nutritive sweetener. We work closely with Tate & Lyle, our sucralose supplier, to maintain continuity of supply. Although Tate & Lyle is our single source for sucralose, we do not anticipate difficulties in obtaining our requirements for sucralose.

With regard to juice and juice-drink products, citrus fruit, particularly orange juice concentrate, is our principal raw material. The citrus industry is subject to the variability of weather conditions. In particular, freezing weather or hurricanes in central Florida may result in shortages and higher prices for orange juice concentrate throughout the industry. Due to our ability to source orange juice concentrate from the Southern Hemisphere (particularly from Brazil), the supply of orange juice concentrate available that meets our Company's standards is normally adequate to meet demand.

### **Patents, Copyrights, Trade Secrets and Trademarks**

Our Company owns numerous patents, copyrights and trade secrets, as well as substantial know-how and technology, which we collectively refer to in this report as "technology." This technology generally relates to our Company's products and the processes for their production; the packages used for our products; the design and operation of various processes and equipment used in our business; and certain quality assurance software. Some of the technology is licensed to suppliers and other parties. Our soft-drink and other beverage formulae are among the important trade secrets of our Company.

We own numerous trademarks that are very important to our business. Depending upon the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained. Pursuant to our Bottler's Agreements, we authorize our bottlers to use applicable Company trademarks in connection with their manufacture, sale and distribution of Company products. In addition, we grant licenses to third parties from time to time to use certain of our trademarks in conjunction with certain merchandise and food products.

### **Governmental Regulation**

Our Company is required to comply, and it is our policy to comply, with applicable laws in the numerous countries throughout the world in which we do business. In many jurisdictions, compliance with competition laws is of special importance to us, and our operations may come under special scrutiny by competition law authorities due to our competitive position in those jurisdictions.

The production, distribution and sale in the United States of many of our Company's products are subject to the Federal Food, Drug and Cosmetic Act; the Occupational Safety and Health Act; the Lanham Act; various environmental statutes; and various other federal, state and local statutes and regulations applicable to the production, transportation, sale, safety, advertising, labeling and ingredients of such products. Outside the United States, the production, distribution and sale of our many products are also subject to numerous statutes and regulations.

A California law requires that a specific warning appear on any product that contains a component listed by the state as having been found to cause cancer or birth defects. The law exposes all food and beverage producers to the possibility of having to provide warnings on their products. This is because the law recognizes no generally applicable quantitative thresholds below which a warning is not required. Consequently, even trace amounts of listed components can expose affected products to the prospect of warning labels. Products containing listed substances that occur naturally or that are contributed to such products solely by a municipal water supply are generally exempt from the warning requirement. No Company beverages produced for sale in California are currently required to display warnings under this law. However, we are unable to predict whether a component found in a Company product might be added to the California list in the future. Furthermore, we are also unable to predict when or whether the increasing sensitivity of detection methodology that may become applicable under this law and related regulations as they currently exist, or as they may be amended, might result in the detection of an infinitesimal quantity of a listed substance in a Company beverage produced for sale in California.

Bottlers of our beverage products presently offer nonrefillable, recyclable containers in the United States and various other markets around the world. Some of these bottlers also offer refillable containers, which are also recyclable. Legal requirements have been enacted in jurisdictions in the United States and overseas

requiring that deposits or certain ecotaxes or fees be charged for the sale, marketing and use of certain nonrefillable beverage containers. The precise requirements imposed by these measures vary. Other beverage container-related deposit, recycling, ecotax and/or product stewardship proposals have been introduced in various jurisdictions in the United States and overseas. We anticipate that similar legislation or regulations may be proposed in the future at local, state and federal levels, both in the United States and elsewhere.

All of our Company's facilities in the United States and elsewhere around the world are subject to various environmental laws and regulations. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect on our Company's capital expenditures, net income or competitive position.

## **Employees**

As of December 31, 2005, our Company employed approximately 55,000 persons, compared to approximately 50,000 at the end of 2004. The increase in the number of employees was primarily due to an increase in bottling operations activity, mainly in Brazil, offset by a decrease resulting from the sale of certain bottling and canning operations. At the end of 2005, approximately 10,400 Company employees were located in the United States.

Our Company, through its divisions and subsidiaries, has entered into numerous collective bargaining agreements. We currently expect that we will be able to renegotiate such agreements on satisfactory terms when they expire. The Company believes that its relations with its employees are generally satisfactory.

## **Securities Exchange Act Reports**

The Company maintains an internet website at the following address: [www.coca-cola.com](http://www.coca-cola.com). The information on the Company's website is not incorporated by reference in this annual report on Form 10-K.

We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission (the "SEC") in accordance with the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

## **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition or future results. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### ***Obesity concerns may reduce demand for some of our products.***

Consumers, public health officials and government officials are becoming increasingly aware of and concerned about the public health consequences associated with obesity, particularly among young people. In addition, recent press reports indicate that lawyers and consumer advocates have publicly threatened to instigate litigation against companies in our industry, including us, alleging unfair and/or deceptive practices related to contracts to sell soft drinks and other beverages in schools. Increasing public awareness about these issues and negative publicity resulting from actual or threatened legal actions may reduce demand for our non-diet carbonated beverages, which could affect our profitability.